

## Direct Tax Reforms in India - A Sustainable Development

Shivakumara H.M<sup>1</sup> & Dr. Girisha M.C<sup>2</sup>

<sup>1</sup>Faculty of Commerce, Department of Commerce, Government College (Autonomous)  
Mandya, Mandya University, Mandya

<sup>2</sup>Associate Professor, Department of Commerce, Government College (Autonomous)  
Mandya, Mandya University, Mandya

### Abstract:

*Every government of a country directly depends upon taxation as primary source of revenue. The country prosperity is always determined by its tax structure and changes according to need. The changes in tax system must focus on elimination of tax evasion and enhance the prosperity of country's economy. This research article mainly focusing on the study, analyse and to gain in-depth knowledge about changes in tax structure with respect to direct tax system. After Indian independence different governments changing the tax structure according to their ideology. Every change in direct tax structure significantly influenced on tax revenue. This research article administering collection and analyse the changes from secondary information such as changes in tax structure for individuals and tax revenue for a period of 20 years (2004-05 to 2024-25).*

**Keywords:** Tax system, Reforms, Tax revenue, Economy.

### Introduction

India is developing country; every developing country requires continuous, regular changes in economic policies. The success of economic policies depends on several components such as monetary policy, fiscal policy, tax system and other structural reforms; the socio-economic development is one of the sustainable development goals in the world.

Reforms are one of the strongest weapons to bring equity in socio-

economical condition. Tax is playing very significant role in revenue generation. The governments providing facilities to the society by utilizing tax revenue which is collected according to the regulation. The implementation of reforms in tax structure must enhance the revenue to the government.

The Constitution of India came into force on twenty sixth January nineteen fiftieth. It is federal in structure. India is a

federal state in which revenue and law-making powers are vested in the Center and a distinction is made between all the states. India is a federal state where the Constitution is supreme and acts as a guide for all policy rules. The powers of the Center and the States to levy and collect taxes are created by the Constitution. If any rule or laws of the Government are inconsistent with the Constitution such rules are illegal and void. According to the Tax Inquiry Commission the system of taxation can be said to be the decentralization of taxation powers between the Center and the states and the sharing of revenue resources.

### **Objectives of the Study**

The study keeps the following research objectives

1. To study the tax structure in India since 1992 to 2024.
2. To gain the depth understanding direct tax changes in India.
3. To analyse the changes in direct tax structure from two decades.

### **Research Gap.**

The extensive literature review has been done on this concept and found that there is some continues changes in reforms and some regulations. As per the data published from government found that there is constant foe few years from 1993 to 1996 and rapid changes in next decade. These reforms bringing several changes and increase of revenue to the government. This article aims to find the

changes in direct tax and revenue to the government.

### **Research Methodology**

This study is purely based on secondary data. Various data information is obtained from the different websites of government of India. Other secondary sources include textbooks, journals, online published articles, information from the local newspapers and internet search engines, unpublished articles

### **Significance of the Study**

From two decade the central and state government realised that taxation is powerful instrument with multiple application and for allocations. This taxation will be used to reduce inequalities and accelerate the economic development of a country. This is a tool for regulation of compensation, export and import in addition to that increase the revenue to the government. India has well-structured tax system with a huge population. Indian tax system has undergone tremendous reforms during last decade such as new regime and old regime of tax benefits for individuals. The tax rates have been rationalised and tax laws have been simplified which results better compliance. From few years tax system integrated with internet technology to make ease to file returns. This study is very significant to understand the changes of tax structure and impact on tax revenue to the government.

### Literature Review

Jha, A. (2013). In the research paper FRBMA has attempted to analyze the impact of old day and current reformed tax structure. Different types of investments and its impact on financing method of companies are analyzed. It is very easy to see whether improved taxation has caused companies to be more cautious in their investment and financing methods.

Alagappan, S. M. (2019). In India payment of tax became mandatory for every citizen those who have income more than the specified limit. Income tax is a powerful instrument to collect resources for government for which they can formulate their policies and schemes for overall development of country. Tax plays a significant role as main source of revenue to the government to remove economic disparity. Several decisions in tax system brings several directions. India

a is a progressive tax system in which brings equality to everyone.

Nishant Gauge and Katdare (2015) According to this article, Indian tax structure is a divisive perspective. Identify the amount of revenue generated from different types of taxes during the last four years. The study found that the amount collected from indirect taxes is roughly twice the amount collected from direct taxes. This study also suggests that governments should focus on structural reforms rather than policy reforms.

Pramod Kumar Pandey (2017) To assess the impact of indirect and direct taxes on India's economic growth, This chapter also reveals that there is a lack of co-ordination between the Central Board of Direct Taxes and the Central Board of Excise and Customs conducted by the study titled Effect on it and hence the need these days to unite these two important departments.

**Table 1: Income Tax slabs and rate of tax since 1992 to 2024**

1992-93		1993-94		1994-95		1995-96		1996-97	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
22000 to 30000	20%	28000 to 50000	20%	30000 to 50000	20%	Up to 35,000	NIL	Up to 40,000	NIL
30000 to 50000	30%	50000 to 100000	30%	50000 to 100000	30%	35,000 to 60,000	20%	40,000 to 60,000	20%
50000 to 100000	40%	100000 above	40%	100000 above	40%	60,000 to 1,20,000	30%	60,000 to 1,20,000	30%
100000 above	50%					1,20,000 Above	40%	1,20,000 Above	40%

1997-98		1998-99		1999-2000		2000-01		2001-2002	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 40,000	NIL	Up to 40,000	NIL	Up to 50,000	NIL	Up to 50,000	NIL	Up to 50,000	NIL
40,000 to 60,000	15%	40,000 to 60,000	10%	50,000 to 60,000	10%	50,000 to 60,000	10%	50,000 to 60,000	10%
60,000 to 1,20,000	30%	60,000 to 1,50,000	20%	60,000 to 1,50,000	20%	60,000 to 1,50,000	20%	60,000 to 1,50,000	20%
1,20,000 above	40%	1,50,000 above	30%	1,50,000 above	30%	1,50,000 above	30%	1,50,000 above	30%

2002-03		2003-04		2004-05		2005-06		2006-07	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 50,000	NIL	Up to 50,000	NIL	Up to 50,000	NIL	Up to 50,000	NIL	Up to 1,00,000	NIL
50,000 to 60,000	10%	50,000 to 60,000	10%	50,000 to 60,000	10%	50,000 to 60,000	10%	1,00,000 to 1,50,000	10%
60,000 to 1,50,000	20%	60,000 to 1,50,000	20%	60,000 to 1,50,000	20%	60,000 to 1,50,000	20%	1,50,000 to 2,50,000	20%
1,50,000 above	30%	1,50,000 above	30%	1,50,000 above	30%	1,50,000 above	30%	2,50,000 above	30%

2007-08		2008-09		2009-10		2010-11		2011-12	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 1,00,000	NIL	Up to 1,10,000	NIL	Up to 1,50,000	NIL	Up to 1,60,000	NIL	Up to 1,60,000	NIL
1,00,000 to 1,50,000	10%	1,10,000 to 1,50,000	10%	1,50,000 to 3,00,000	10%	1,60,000 to 3,00,000	10%	1,60,000 to 5,00,000	10%
1,50,000 to 2,50,000	20%	1,50,000 to 2,50,000	20%	3,00,000 to 5,00,000	20%	3,00,000 to 5,00,000	20%	5,00,000 to 8,00,000	20%
2,50,000 above	30%	2,50,000 above	30%	5,00,000 above	30%	5,00,000 above	30%	8,00,000 above	30%

2012-13		2013-14		2014-15		2015-2016		2016-17	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 1,80,000	NIL	Up to 2,00,000	NIL	Up to 2,00,000	NIL	Up to 2,50,000	NIL	Up to 3,00,000	NIL
1,80,000 to 5,00,000	10%	2,00,000 to 5,00,000	10%	2,00,000 to 5,00,000	10%	2,50,000 to 5,00,000	10%	3,00,000 to 5,00,000	10%
5,00,000 to 8,00,000	20%	5,00,000 to 10,00,000	20%	5,00,000 to 10,00,000	20%	5,00,000 to 10,00,000	20%	5,00,000 to 10,00,000	20%
8,00,000 above	30%	10,00,000 above	30%	10,00,000 above	30%	10,00,000 above	30%	10,00,000 above	30%

2017-18		2018-19		2019-20		2020-21		2021-22	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 3,00,000	NIL	Up to 2,50,000	NIL	Up to 2,50,000	NIL	Up to 2,50,000	NIL	Up to 2,50,000	NIL
3,00,000 to 5,00,000	10 %	2,50,000 to 5,00,000	5%	2,50,000 to 5,00,000	5%	2,50,000 to 5,00,000	5%	2,50,000 to 5,00,000	5%
5,00,000 to 10,00,000	20 %	5,00,000 to 10,00,000	20 %	5,00,000 to 10,00,000	20 %	5,00,000 to 10,00,000	20 %	5,00,000 to 10,00,000	20 %
10,00,000 above	30 %	10,00,000 above	30 %	10,00,000 above	30 %	10,00,000 above	30 %	10,00,000 above	30 %

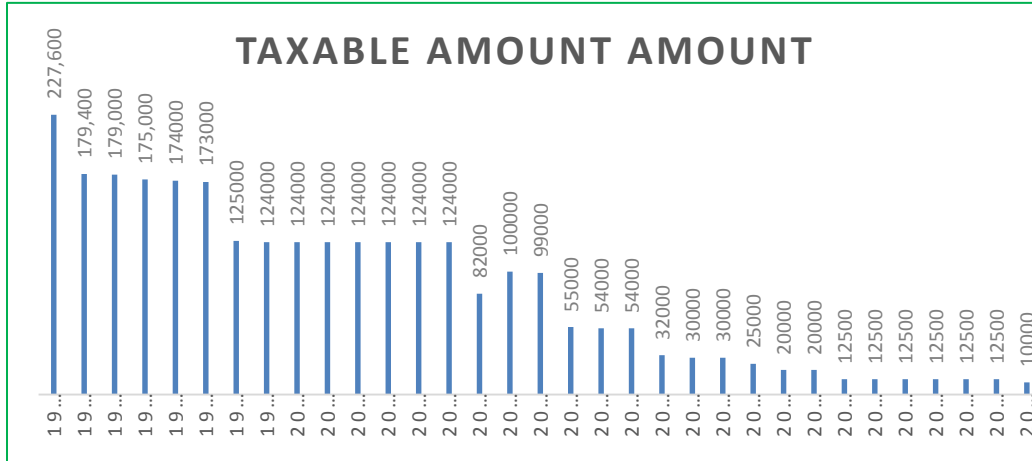
2022-23		2023-24		2024-25	
INCOME	TAX RATE	INCOME	TAX RATE	INCOME	TAX RATE
Up to 2,50,000	NIL	Up to 2,50,000	NIL	Up to 3,00,000	NIL
2,50,000 to 5,00,000	5%	2,50,000 to 5,00,000	5%	3,00,000 to 6,00,000	5%
5,00,000 to 10,00,000	20%	5,00,000 to 10,00,000	20%	6,00,000 to 9,00,000	10%
10,00,000 above	30%	10,00,000 above	30%	9,00,000 to 12,00,000	15%
				12,00,000 to 15,00,000	20%
				15,00,000 above	30%

Source: www.incometax.gov.in

The above table shows that tax slabs and rate of tax from 1992 to 2024. This evidenced that there is no much changes in tax slab I between 1993 to 1997. From 1998 there was constant rates on income

tax. Up to 2005 but from 2006 there is rapid changes in tax slab and tax rates. From 2018 there is few changes up to 2024.

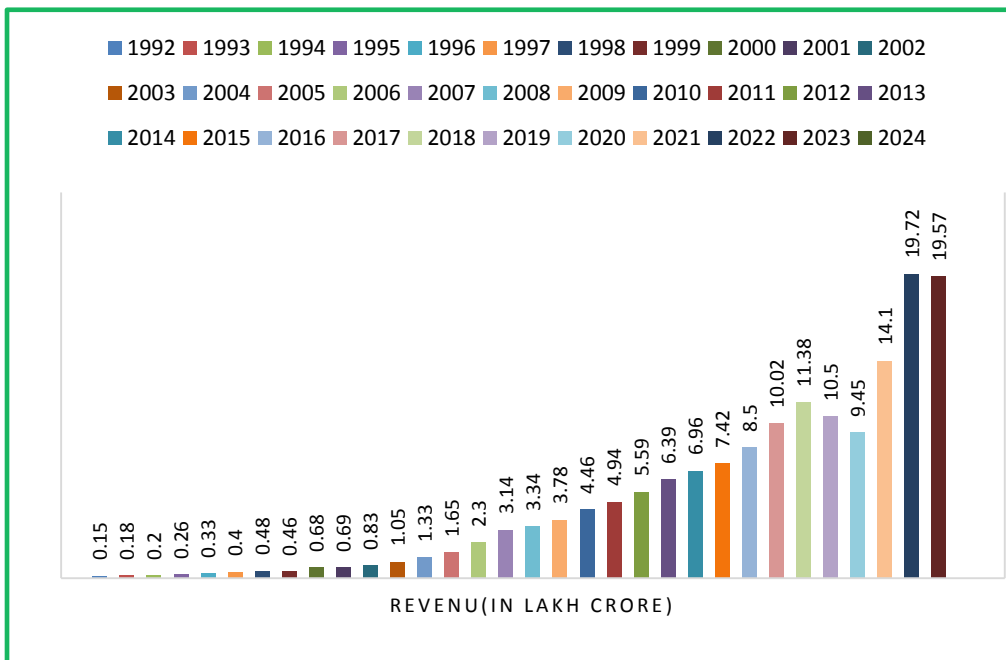
**Graph 1: Taxable amount for net income RS. 5,00,000**



The above graph shows the total amount of tax payable by individual for net income of Rs. 5,00,000. This evidenced that there is rapid changes in tax payable amount in year by year as the

tax slab and rate of tax changed. This above case was calculated based on tax rates from 1992 to 2024 with an example of net income of Rs. 5,00,000.

**Trends in tax Revenue in India since 1992 to 2024**



Sources: <https://pib.gov.in/PressReleasePage.aspx?PRID=1814822>

The above graph is evidenced that there is increasing trend regarding direct tax revenue from 1992 to 2024 as the income tax department implemented the technology in e filling and made some regulations in monitoring system in tax department.

### **Reforms in Taxation since 1991**

Since 1991 tax reforms witnessed several structural reform processes which followed by economic crisis of 1991. In keeping this evidence, the government initiated best practices approach in tax structure. This practice combined the principles with conventional wisdom recommending comprehensive tax system. The reforms have been made in different phases, namely, principles of tax reforms and applied them into several taxes such as income tax, wealth tax along with different tariffs. The first committee report set up for guidelines to related aspects of reforms in the tax administration and enforcement of direct and indirect tax. The second phase concerned with restructuring the tariff structure for structural adjustment economy along with lower marginal tax rates, reduce rate of differentiation and undertake administration more effective measures for individuals. Governments accepted recommendations of Tax Reforms committee report and implemented them in different phases. Even though tax department did not follow entire recommendations and yet to implement

several recommendations and measure the strengthen the administrative enforcement. Most of the recommendations have been implemented with different situations.

In 1998 – 99 the government made tremendous changes in tax structure and amendment has been made in the Income Tax Act 1961 through finance Act 1998. This changes emphasis was continuing reforms in tax system with aim of simple and transparent widen tax base, minimise the tax evasion, provide tax concession for infrastructure along with restructure presumptive tax scheme. There was major direct tax reform measures was introduced in 1998-99. The major changes were exemption limit raised from 40 thousand to 50 thousand and standard deduction raised to 1 lakh from 20 thousand this leads to major changes in tax structure. In 2006-07 there were tremendous changes in tax structure and amendments has been made. This finance bills the basic exemption limit raised to 1,00,000 from 50,000 which is very much changes in exemption limit for individuals. And introduced education cess for development purpose. This continued some small changes in exemption limit up to 2014-15. In the year 2015-16 the exemption limit raised from 2,00,000 to 2,50,000 for individuals and in the next financial year they have made increase of exemption limit of Rs. 50,000 for individuals. Again in 2018-19 the exemption limit reduced by Rs 50,000. This slab continued up to 2023-24 but



again raised exemption limit by Rs. 50,000 from 2024-25.

### Conclusion

India is a developing country along with well structured monetary and fiscal policies. Integration of policies will remove disparities and gender inequalities in a country. Every country mainly focusing on developmental activities with well planned policies by increasing revenue to the government. Income tax revenue is one of the major sources for government. Rapid changes in tax structure and tax laws can bring changes in administration and revenue generation and monitoring methods. Tax evasion is one of the vital concepts in every country to reduce the revenue. Continues monitoring system and regular reforms in tax law and provisions will be a useful for every individual to ease of doing things in presenting their position and tax liability. The income tax department is integrating the technology in the form of E-filing of returns this is one of the tremendous developments in Indian tax system.

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