



RESEARCH ARTICLE

PERSONAL INCOME TAX STRUCTURE IN INDIA: AN EVALUATION

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ABSTRACT

In the present paper an effort has been complete to throw light on obtainable personal income tax structure in India. The paper briefly investigation the issues involving to high tax load on people lessening under low and medium income group. Researcher conclude that there is still a want to bring additional improvement in the personal income tax structure in the form of development the exemption limits, lowering the tax tariff, reorganize the dissimilar income tax slabs and make simpler overall tax process so that people could be positive for obedience of tax laws.

INTRODUCTION

As per Income Tax Act 1961, every person (Individuals, Companies, Hindu undivided families, Firms, Cooperative Societies, involvement of person, body of person and all other artificial judicial persons) whose whole income goes beyond maximum exemption limit is liable to pay income tax at the rates prescribed in the act. It is not a voluntary fee but a compulsory contribution that is why tax is known as financial charge or levy. In spite of the fact that money provide by taxation is used to carry out a lot of functions for the benefit of the society, it generally gives a feeling of unhappiness to tax payer. Really, tax payer does not want that his hard core earn money ought to be taken away from him. History is witness that there is always a great attempt between tax payer and tax collector. This can be due to the illogical structure of Personal Income tax. The tax rates, tax base and tax slabs in Personal Income Tax program were much superior by any standards through the period under evaluation. The need for reason of tax structure was felt long back but very small reform has been seen so for.

Review of literature

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities (IT circular, 2010).

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India has a tax charter with three-tier federal structure (Union, state governments and local bodies). (Bernardi, 2005) The rapid changes in administration of direct taxes, during the last decades, reflect the history of socio-economic thinking in India. (CBDT report, 2009) Governments use different kinds of taxes and vary tax rates because taxes are one of the significant sources of revenue. (Asia trade hub .com) Quite apart from its role of raising revenue, the personal income tax has long been regarded as a potent weapon of effecting distributive justice (Nayak, 1989). Secondly, it is an instrument of equity, social justice and income distribution. (Sahota, 1961) Another common and most empirically used way to understand its role is the ratio of personal income tax to total tax revenue and national income. (Agarwal, 1991) A good tax system is characterized by a high responsiveness of tax revenue to changes in income of public bodies or national income; the technique of measuring this response is tax elasticity and tax buoyancy. Tax policy forms an important part of development process in a developing economy. The total tax revenue is dependent upon three variables viz., tax rate, tax base, and national income. (Ankita, 2009) Tax reforms sometime bring changes in taxation system. A tax payer sometime finds it difficult to understand whether change in tax liability is due to legislative change in the federal tax code or shift in his or her own circumstance. (Troy et al) There has been change in Personal income tax rates, tax brackets and rate of surcharges from time to time. As rates remained stable since 1997-98, at 10, 20, and 30%, with some changes in the associated tax brackets. A surcharge of 5 % of the income tax payable was imposed in 2002-03 in the wake of the Kargil war and was discontinued the following year. It

was replaced, however, with a separate 10 % surcharge imposed on all taxpayers with taxable incomes above 850,000; the level was raised to ` 1million in the 2005–06 budgets.

### Objective of the study

The objectives of the study are:

- To calculate the trend of personal income tax structure in India.
- To determine the present situation and future prospects of prevailing income tax structure.
- To advise correct measures for rational individual income tax scheme.

### Scope of the study

Personal income tax in India may be said to consist of taxes on the non-agricultural incomes of three type of assess: Individuals, Hindu Undivided families, unregistered firm and other relations of persons. Though, present study is confined only to general tax payers. Therefore, there is additional range of study.

## MATERIALS AND METHODS

Present study is descriptive and exploratory in nature. Here researcher has taken 11 financial years (2006-2007 to 2016-2017) personal income tax rate and calculated tax burden accordingly. Various books on direct taxes, indirect taxes, public finance, circulars of CBDT, reports in newspapers, research papers in journals and magazines, statistics based on different issues of economic survey of government of India, various internet sites, and other relevant literature were consulted. Guidance of the experts in the field and view of public is also considered for carrying out the study.

### Present study has passed through the following stages

- Composition and comparative study of tax. Free income
- Composition of overall tax liability of general tax payer for period under review.
- Composition of growth rate of tax burden.
- Composition of tax burden on different income slabs.
- Conclusion and suggestions.

### Composition and comparative analysis of income exempted from tax

**Table1.** under reference depicts tax free income of male, female and senior citizen and super senior citizen. Study shows that exemption limit remained stable only for super senior citizen and for others assesses it was growing slowly, despite raising cost of living and extra requirement for better life. Although the increased ratio of tax free income thereafter is important but the pace has not been in consonance with raising prices all around.

As we shown in table no – 1, before financial year 2011-12 there was consist only Male, Female and senior citizen but in the year 2011-12, a new group called “Super senior citizen” has been added for people above 80 years. Now we have two types of senior citizens “Senior citizen” up to 60 years of age and ‘Super senior citizen’ in the age of 80 year or above. The

entrance limit of income exempted from tax for newly created category of assesses is ` 500,000, thereafter they have to pay tax according to general tax rates. Interesting point here is that higher the amount of income exempted from tax, lesser the number of individual who will fall in the last category.

**Table 1. Tax free income for Male, Female, Senior Citizen, Super senior citizen**

Financial year	Male	Female	Senior citizen	Super senior citizen
2006-07	1,00,000	1,35,000	1,85,000	-
2007-08	1,10,000	1,45,000	1,95,000	-
2008-09	1,50,000	1,80,000	2,25,000	-
2009-10	1,60,000	1,90,000	2,40,000	-
2010-11	1,60,000	1,90,000	2,40,000	-
2011-12	1,80,000	1,90,000	2,50,000	5,00,000
2012-13	2,00,000	2,00,000	2,50,000	5,00,000
2013-14	2,00,000	2,00,000	2,50,000	5,00,000
2014-15	2,50,000	2,50,000	3,00,000	5,00,000
2015-16	2,50,000	2,50,000	3,00,000	5,00,000
2016-17	2,50,000	2,50,000	3,00,000	5,00,000

### Composition of total tax liability of general tax payer for period under review

Composition of total personal income tax burden (tax on all the three slabs in each one financial year) of individual tax payer from FY 2006-07 to 2016-17 is shown in table 2. Here taxable income up to Rs 12, 00,000 is taken into concern and tax weight on each slab is calculated so. Tax liability on first income bracket varies between `5000 to ` 25000 for whole period under review. In case of 2nd income bracket, it is Rs 20,000 in 2006-2007 and Rs 1, 00,000 in 2016-17. Unexpectedly, in case of 3rd income bracket, liability is maximum in the commencement (Rs 2, 85,000) and minimum in the end (Rs. 60,000). Though, total tax load is show declining trend but this is one side of the coin because those who fall in the third income bracket are people with high income level. Semi- increasing trend of tax load in case of first slab and increasing trend in second slab during the period under review indicates that those who fall in the low and medium income group are extremely taxed than their counterparts who are in the third income bracket. too, the growth rate of total tax load, which is given in table 3, varies between 25.83% to 15.41% between 2006-07 to 2016-17. Keeping in view the growth rate of taxes on first and second income groups there is enough justification to say that there is need to bring reform in existing personal income tax structure in the form of lower tax rates. Due to inflationary trend in the country, those who fall in tax bracket feel double snag, which be able to influence adversely their sustainability on the one hand, and enthusiasm to contribute for tax payments on the other.

### Composition of tax liability on different slabs for the period under review

As we shown in table 4 the researcher has calculated tax load on different slabs, and their growth rates in corresponding tables. Though time to time composition of sum covered, in different tax, slabs have been changed but by and large in our nation people fall in first two slabs according to their income labels and they are known as Aam Adami. Tax burden on different slabs gives us a different image and this is nearly a clear situation because those assesses whose incomes cover up all the three slabs are people with high income level and those who fall in 1st and 2nd tax brackets are middle income group people. Table 5.

**Table 2. Trend of tax rates and tax liability for general tax payers**

Financial year	Income (Rs.)	Rate	Liability (Rs.)	Income (Rs.)	Rate	Liability (Rs.)	Income (Rs.)	Rate	Liability (Rs.)
2006-07	1,00,001 to 1,50,000	10%	5,000	1,50,001 to 2,50,000	20%	20,000	2,50,001 to 12,00,000	30%	2,85,000
2007-08	1,10,001 to 1,50,000	10%	4,000	1,50,001 to 2,50,000	20%	20,000	2,50,001 to 12,00,000	30%	2,85,000
2008-09	1,50,001 to 3,00,000	10%	15,000	3,00,001 to 5,00,000	20%	40,000	5,00,001 to 12,00,000	30%	2,10,000
2009-10	1,60,001 to 3,00,000	10%	14,000	3,00,001 to 5,00,000	20%	40,000	5,00,001 to 12,00,000	30%	2,10,000
2010-11	1,60,001 to 5,00,000	10%	34,000	5,00,001 to 8,00,000	20%	60,000	8,00,001 to 12,00,000	30%	1,20,000
2011-12	1,80,001 to 5,00,000	10%	32,000	5,00,001 to 8,00,000	20%	60,000	8,00,001 to 12,00,000	30%	1,20,000
2012-13	2,00,001 to 5,00,000	10%	30,000	5,00,001 to 10,00,000	20%	1,00,000	10,00,001 to 12,00,000	30%	60,000
2013-14	2,00,001 to 5,00,000	10%	30,000	5,00,001 to 10,00,000	20%	1,00,000	10,00,001 to 12,00,000	30%	60,000
2014-15	2,50,001 to 5,00,000	10%	25,000	5,00,001 to 10,00,000	20%	1,00,000	10,00,001 to 12,00,000	30%	60,000
2015-16	2,50,001 to 5,00,000	10%	25,000	5,00,001 to 10,00,000	20%	1,00,000	10,00,001 to 12,00,000	30%	60,000
2016-17	2,50,001 to 5,00,000	10%	25,000	5,00,001 to 10,00,000	20%	1,00,000	10,00,001 to 12,00,000	30%	60,000

**Table 3. Growth rate of tax liability (2006-07 to 2016-17)**

Financial year	Tax load on first slab in (Rs.)	Tax load on second slab in (Rs.)	Tax load on third slab in (Rs.)	Total tax load in (Rs.)	Total taxable income in (Rs.)	Tax liability (in %)
2006-07	5,000	20,000	2,85,000	3,10,000	12,00,000	25.83
2007-08	4,000	20,000	2,85,000	3,09,000	12,00,000	25.75
2008-09	15,000	40,000	2,10,000	2,65,000	12,00,000	22.08
2009-10	14,000	40,000	2,10,000	2,64,000	12,00,000	22
2010-11	34,000	60,000	1,20,000	2,14,000	12,00,000	17.83
2011-12	32,000	60,000	1,20,000	2,12,000	12,00,000	17.66
2012-13	30,000	1,00,000	60,000	1,90,000	12,00,000	15.83
2013-14	30,000	1,00,000	60,000	1,90,000	12,00,000	15.83
2014-15	25,000	1,00,000	60,000	1,85,000	12,00,000	15.41
2015-16	25,000	1,00,000	60,000	1,85,000	12,00,000	15.41
2016-17	25,000	1,00,000	60,000	1,85,000	12,00,000	15.41

**Table 4. Tax Weighton General Tax Payer Of Different Slabs**

Financial year	Tax burden on first slab	Tax burden on second slab	Tax burden on third slab
2006-07	5,000	20,000	2,85,000
2007-08	4,000	20,000	2,85,000
2008-09	15,000	40,000	2,10,000
2009-10	14,000	40,000	2,10,000
2010-11	34,000	60,000	1,20,000
2011-12	32,000	60,000	1,20,000
2012-13	30,000	1,00,000	60,000
2013-14	30,000	1,00,000	60,000
2014-15	25,000	1,00,000	60,000
2015-16	25,000	1,00,000	60,000
2016-17	25,000	1,00,000	60,000

**Table 5. Trend of tax load on first slab**

Financial year	Growth Rate (IN %)
2006-07	-
2007-08	-20%
2008-09	200%
2009-10	180%
2010-11	580%
2011-12	540%
2012-13	500%
2013-14	500%
2014-15	400%
2015-16	400%
2016-17	400%

**Table 6. Trend of at load on second slab**

Financial year	Growth Rate (IN %)
2006-07	-
2007-08	0%
2008-09	100%
2009-10	100%
2010-11	200%
2011-12	200%
2012-13	400%
2013-14	400%
2014-15	400%
2015-16	400%
2016-17	400%

**Table 7. Trend of at load on third slab**

Financial year	Growth Rate (IN %)
2006-07	-
2007-08	0%
2008-09	-26.31%
2009-10	-26.31%
2010-11	-57.89%
2011-12	-57.89%
2012-13	-78.94%
2013-14	-78.94%
2014-15	-78.94%
2015-16	-78.94%
2016-17	-78.94%

Tax toll is quite heavy on those who fall in first tax bracket, which is portrayed in the form of corresponding high growth rate in tax burden, in table 5. Continuously higher dose of tax on low income is exposing inverse relationship between incomes earned by assesses and degree of tax imposed on them. Proper care therefore is, needed on the part of tax administration to have low tax liability at lowest level so that people should act in accordance with tax law. Table 6. Situation is not much different for those who get under next tax bracket but the only difference in this case is that tax toll is

growing at slightly lesser speed than their counterparts are. Overall tax liability on lower and middle income groups is higher than high earning people in the country, which is the violation of "Equity Principle" of taxation given by Adam Smith. An significant task, so, before tax administration is to design the rate agenda that should be equitable and efficient if not people will start following immoral practice in the form of tax evasion, which could have unenthusiastic impact in the increase story of the country. Table 7. Moderately, third tax bracket carries less tax toll than first and second slab. As we

shown in table no-7 tax growth rate is decreasing quick year by year. In 2016-17 growth rate is (-78.94%) while it was (-26.31%) in 2008-09 so we can say that tax burden for assesses who fall in third bracket is falling. An extra way to bring reform in personal income tax structure is that figure of tax slabs should be few and their variety fairly huge to minimize the distortion arising out of bracket creep. Findings of many researchers have shown that reduction in tax rate has caused positive impact on tax buoyancy.

### Conclusion

Though the payment of tax is a moral obligation and tax payer is conscious about the information that revenue generated by government through taxes is used for the welfare of the people but due to high personal income tax rates and other irrationality in prevailing tax establishment, assesses feel bit pinched while contributing to this noble reason. This condition develops ill feeling toward payment of income tax which outcome assesses make each attempt to hide their income and avoid tax payments, which is a major setback in economic growth of a country. Need of the hour is to bring reform in present tax regime by framing tax friendly policy so that those who come under tax catch should freely come forward and feel pride to pay tax. In order to more bring them into make them feel at ease fundamental exemption limit have to be at moderate level. The tax brackets required to be redesigned and tax tariff is wanted to be reframed in such a method that high tax should be imposed on high income and lower income should be taxed with lower rates.

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