International Journal of Research in Social Sciences
Vol. 8 Issue 8, August 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

PERSONAL INCOME TAX IN INDIA: IMPACT ON PRIVATE AND PUBLIC SECTOR TAX

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ABSTRACT

Income tax is one of the most crucial direct tax reforms in India. It refers to the annual charge levied on the income generated from salaries, wages and commission (earned income) or from rents and interests (unearned income). Progressive income taxation is implemented to ensure even distribution of wealth among the entire population, in addition to raising public revenue in stabilizing the economy. The Income Tax Act (1961) establishes rules that govern income tax in India. Personal income tax is the one levied on income generated by individuals. This paper presents an overview of the income tax imposed on the private and public sector employees and its effect on the economic growth of the country.

KEY WORDS

Tax, Private Sector, Public Sector, Income tax, India

I.INTRODUCTION

The development of a countrydepends directly on its taxation structure. The structure which facilitates easy business and less chance for tax evasion brings prosperity to a country's economy, while the one which has provisions for tax evasion and does not facilitate ease of doing business slows down its growth. India has a well-developed tax structure that has undergone a radical change in terms of a number of reforms.

The Union Government exercises the power to impose Income Tax. The salaried employees consist of a sizable category of taxpayers, who contribute about 12 % of the total revenue

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collection to the public exchequer, in the form of income tax. The practical concept of a taxation law is to extract maximum revenue, but its payment reduces the available or disposable income on the tax payers, thus imposing a burden on them. Every taxpayer wants to pay taxes to their minimum possible extent. It is therefore essential for them to know their tax obligations in the right perspective in their respective work sectors, to exercise good tax planning in times of price hike, inflation,etc., and make best use of their income by reducing the incidence of tax, thereby ensuring take-home-pay at the maximum possible monetary level.

II. LITERATURE REVIEW

According to the Income Tax Act 1961, every individual whose total income exceeds a particular maximum exemption limit is liable to pay income tax at the rates mentioned in the act.

- IT Circular, 2010 mentioned, “Taxes imposed on income and wealth are not recently imbibed, but were levied in some form in the ancient or primitive societies”.
- Datar (2010) in his article entitled "Why the Code must be shelved" studied about proposed Direct Taxes Code. He believed that people spent a lot of time in figuring out the new provisions of income tax law and CBDT needed to issue numerous circulars and frame new set of rules again. He specified his apprehension saying that the proposed Code would not improve either efficiency or tax collection, due to functioning of deep rooted corruption. According to him, “Fault is not with existing Income Tax Act, but the manner in which it is administered”.
- CBDT Report, 2009 mentioned, “The fast changing pace of administration in direct taxes reflects the change in socio-economic mindset of India from the past decades”.
- Kumar and Samanta (2007) applied econometric model to study effectiveness of direct tax administration in India considering personal income tax collection at pre and post assessment stages, concluding that TDS and advance tax, contributed 33.88% and 45.45% of the total collection in personal income tax and corporation tax respectively.
- Sahota (1961) mentioned,”The best way to understand role of income tax is to consider the ratio of personal income tax to total tax revenue and national income.”
- Rao En All saw that a surcharge of 5 % of the income tax payable was enforced in 2002–03 due to the Kargil war crisis and discontinued the following year. It was then replaced with a 10% surcharge imposed on all taxpayers with taxable incomes above 850,000 and this level went up to 1million in the 2005–06 budgets.

III. OBJECTIVE OF STUDY

The study has following objectives:

- To examine and predict trends of India’s personal income tax structure.
- To study impact of income tax reforms on the salaried class.
- To determine future prospects of prevailing structure of income tax in public and private sectors.
- To suggest apt measures for rationalization of personal income tax schemes in both the sectors.

- To assess difference in level of income tax measures adopted by both sectors of the salaried class, based on the type of organization in which taxpayer works.

IV. RESEARCH METHODOLOGY

This is an explanatory and descriptive research project based on data collected from websites, articles, journals and other available literature. According to the objectives discussed above, sampling design methodology is adopted to have accurate analysis of the research. Primary and secondary data are used for rigorous analysis.

V. CONCEPT

Group of employees of both the sectors were classified on the basis of the tax rate schedule applicable to individual income taxpayers for the AY 2010-11. According to the Finance Act, 2009, minimum tax rate of 10% was liable to income slab of up to 3 lakh rupees, tax rate of 20% was applicable to income slab of 3-5 lakh rupees earning employee and income above 5 lakh was levied tax at 30% rate. Hence 4 identified groups were formed:

1. Low Income Group: For employees with annual salaried income of below 3 lakh rupees per annum...
2. Lower Middle Income Group: For employees earning 3-5 lakh rupees as their salary income per annum.
3. Upper Middle Income Group: For employees earning between 5-8 lakh rupees as their salary income per annum.
4. High Income Group: For employees earning above 8 lakh rupees as their salary income per annum.

VI. TIMELINE OF INCOME TAX IN INDIA

In India, Tax officially came into being for the first time in 1860 to incur for losses sustained by the government in the Mutiny of 1857. In 1918, Sir James Wilson passed a new income tax, replaced again by a new act in 1922. This Act underwent several quick amendments until the 1960s. Income tax Act was finally passed in 1961 by the Ministry of Law and was brought into force from1st April, 1962.It applies to whole of India and the Act has gone through various amendments made by the Union Budget every year.

This Act levies a tax on income from salaries, business or profession, personal gain, house property, etc. and other sources where in a person includes an individual, a firm, local authority, artificial judicial personnel, Association of Persons(AOP), Hindu Undivided Family(HUF) and Body of Individuals(BOI).

The latest Income Tax slabs was presented on 29th February, 2016 based on the Union budget by Mr. Arun Jaitley, whose major highlights are:

Income Tax Slabs & Rates : FY 2017-2018 (AY 2018-19)			
Income Slabs	General Category (non-senior citizens)	Senior Citizens (60 & above years of age, but below 80 years)	Very Senior Citizens (80 years & above of age)
	Income Tax Rates		
Upto Rs. 2,50,000	Nil	Nil	Nil
Rs. 2,50,001 to Rs. 3,00,000	5%	Nil	Nil
Rs. 3,00,001 to Rs. 5,00,000	5%	5%	Nil
Rs. 5,00,001 to Rs. 10,00,000	20%	20%	20%
Above Rs. 10,00,000	30%	30%	30%

VII. FEATURES

According to the Income Tax Law, following are the features of income:

- **BASICS**
- **Source**: Source of income has to be regular and definite.
- **Income from outside:** Income can't be earned from himself. Transactions between head of branch offices is not considered as income. Contributors of a group that work for mutual benefit is also not considered as income.
- **Receipt or Accrual:** Income arises on possession of actual receipt or accrual.
- **Tainted Income:** The Income Tax Law does not differentiate between accrued income or that raised from legal source and the one tainted with illegality.
- **Disputed Title:** Assessment of income tax would not be postponed due to any dispute regarding its title.
- **Temporary or Permanent:** All income, irrespective of its nature is taxable.
- **Lump Sum Receipt:** Income is liable to tax, irrespective of whether it is received in lump sum amount or in installments.
- **Tax-free Income**: If a person receives such income where tax is paid by a person (individual or body) making payment on behalf of the recipient, it has to be grossed for its inclusion in his total income.
- **Income includes Loss:**Profits are represented as "plus income" and losses are represented as "minus income".

- **TAX SLABS**

  Income of people is grouped into 4 tax brackets with increasing tax slabs as shown:

Range of Income(inRs.)	Tax Rate(%)	Payment to be done
<2,50,000	0	No tax levied

2,50,000-5,00,000	5	5% of taxable income
5,00,000-10,00,000	20	Rs.12,500 + 20% of income above. Rs.5,00,000
Above 10,00,000	30	Rs.1,12,500 + 30% of income above Rs. 10,00,000

- **EXCEPTIONS TO THE TAX SLAB**

  Capital gains are taxable depending on how long one possesses his assets.

Capita Asset type	Holding Period	Tax rate(%)
House Property	>24 Months <24 Months	20 Dependent
Equity Mutual Funds	>12 Months <12 Months	Exempted 15
Debt Mutual Funds	>36 Months <36 Months	20 Dependent

- **CALCULATING INCOME TAX**

  For this one needs a payslip. Section 80C of the income tax act provides may tax benefits that the taxpayers can take advantage of.
- **TAX DEDUCTIONS**

  Some deductions on home ownership, home renting, health, long-term savings and other investments are also provided to taxpayers, mentioned under section 80 of the Income Tax Act, 1961.

VII. EFFECT OF INCOME TAX ON PRIVATE AND PUBLIC SECTORS

- **SEGMENT-WISE CATEGORISATION:**
  - The public sector income is much higher in low-skilled segments like drivers, plumbers, etc., than the private sector, after the 7th CPC according to recent research shown by IIM - Ahmedabad.
  - Public sector income is lower in Officer's segment than in private sector, particularly in later years of job.
  - Comparison of a private sector CEO with the Joint or Cabinet secretariat in the public sector shows a large gap, wherein the CEO earns in the range of 3 lakh to 2.5 crore per month and the topmost bureaucrat in the country takes just 2.5 lakh per month. But, a public sector employee enjoys benefits like health, post-retirement pension, etc.
- **THE MIDDLE LEVEL SALARIED CLASS**

  - In 2012, two famous economists conducted research at the Bureau of Labour Statistics comparing the income plus benefits of local and state public sector employees to private sector employees, who perform work duties of almost same complexity in the Indian scenario and concluded that the private sector employees received more final pay, followed by the local public sector employees and lastly the state public sector employees.

Subject concerned	Public-sector employee	Private-sector employee
Monthly Salary(in rupees)	70970	77363
Weekly hours of work	41.6	44.3
Years of Education	15	13
Age	46	42

- **GENDER PAY GAP**

  Gender pay gap is the difference in the income of Men and Women in the employment and labour market in all groups of income.
  - It is observed by a recent research done by IIM Calcutta that the Gender pay gap is more in public sector as compared to private.
  - Since women also have better representation in terms of the no. of employees, in the private sector, hence the gender pay gap is increasing in the public sector more due to its male-female sex ratio.

VIII. RESULTS

- It is seen that the overall gap between public and private sector income has narrowed by 5% in the last 4 years.
- But the rich still needs to be taxed more in terms of Men and Women and also in terms of different income groups for this gap to be reduced.
- Merely 1.7 % of 125 crore Indians paid income tax in 2017. This small and shrinking number of tax-payers each year may widen the gap between the two sectors in the future.
- It is observed that the ratio of personal income tax ratio to the GDP growth of India is increasing, which is a proof of the fact that only the salaried middle class group, exposed to compulsory taxation pay their taxes, while the higher income or self employed class has found means to avoid paying tax.

IX. OTHER ISSUES

Some issues that need to be addressed are:

- Lack of proper channel for paying income tax
- Poor people paying high taxes
- Tax evasion cases
- Dodging taxes
- Gender pay gap due to fault in income tax structure
- Lack of knowledge and awareness of taxation and its laws

X. CONCLUSION

There is not much difference between employees of the private and public sectors in terms of their pattern of savings, investment in financial and physical assets or awareness of taxation laws that lead to good tax planning. The results show that no. of taxpayers has increased in the last 2 years and due to change in the income tax reforms, the no. of incometax assessments, ratio of income tax to GDP and income tax revenue have taken an upward trend, in the hope that the income tax reforms can take proper charge of modern era.

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