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The Voyage of Taxation in India-The One Tax, One Nation Policy

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ABSTRACT

The present paper aims at providing a comprehensive study of One Tax, One Nation Policy that will maybe be implemented shortly in India. Taking FY 2023-24, this paper analyses how this new taxation system will benefit the Indian economy, compared to the current tax regime. It covers various disciplines including Mathematics, Statistics, Economics, Accounting and Finance. Furthermore, it provides a brief history of the journey of our taxation system, dating back to Kautilya's time.

Keywords: One Tax, One Nation Policy, GST, Income Tax, Indian Taxation System, Indian Economy

Why I chose this topic?

I have a keen interest and inclination towards the subjects of Economics, Maths and Psychology. I believe that policymaking is a process which involves a lot of experimentation, analysis of results and proper implementation, which truly fascinates me. When Finance Minister Nirmala Sitharaman introduced this idea of simplification of the tax system on 1st February, 2024, this topic caught my attention instantly. Using my unrelenting passion for learning and curiosity in data analysis, I decided to go ahead with this topic and analyse the concept of one tax and its benefits.

GDP

GDP or Gross Domestic Product is the final value of all the goods and services produced in a country for consumption, in a given period of time. GDP considers the output that is produced within the domestic territory of a country. It is an important indicator of quantitative economic growth. Alternatively, Gross National Product (GNP) includes the final monetary value of goods and services produced by the normal residents of a country in a given period of time. The GDP also helps to calculate the per capita income of a country which is given by the GDP of the

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country in a given year divided by the total population. GDP is important to calculate the tax to GDP ratio which is the ratio of a county's revenue in taxes to its size.

INCOME

The income of an individual refers to the money received in exchange for one's labour, products or investment. Income usually consists of the salaries and wages earned by an individual, returns on their investments and pensions. Income can further be classified into two categories. Gross income, which is the total value of income without any cash outflows. Net income, refers to the remnant income after the exclusion of taxes.

TAXES

Taxes are mandatory contributions levied by the government on individuals or corporations. These taxes can be levied on the income of an individual, the purchase of a good and even bank transactions and property. The burden of the tax is always on the taxpayer, the person who pays the tax. These taxes are used by the government to finance public expenditures such building of roads and infrastructure, healthcare and educational services. The government aims to use the taxes for social benefit.

TAXABLE INCOME

Income tax slabs (Rs)	**Income tax rates (%) applicable for FY 2023-24**
From 0 to 3,00,000	0
From 3,00,001 to 6,00,000	5
From 6,00,001 to 9,00,000	10
From 9,00,001 to 12,00,000	15
From 12,00,001 to 15,00,000	20
From 15,00,001 and above	30

TAXES: Direct and Indirect

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To properly understand the concept of taxpayers and tax burden, it is important to understand the categories of taxes on the basis of their incidence and impact.

- **Direct Taxes**

Direct taxes are levied on an individual's income or profits. Its burden cannot be transferred and is borne by the taxpayer only. These include taxes such as income tax, wealth tax, fringe benefit tax, etc. Direct taxes fall under the administration of CBDT (Central Board of Direct Taxes). Further, direct taxes are progressive in nature, the slab rate increases with an increase in one's income to reduce the disparity in economic wealth in a country.

- **Indirect Taxes**

Indirect taxes are levied by the government on products such as goods and services. Here, the burden of the tax can shift across tax-paying individuals. It is generally imposed upon wholesalers and manufacturers and is ultimately transferred to the consumers. Indirect taxes include sales tax, service tax, VAT, now GST, etc. These are regressive taxes for which the tax rate is the same across all income groups.

Pre-GST Era

Before the implementation of GST in India, numerous indirect taxes prevailed. Some of these included-

1. **Excise Duty**

Excise Duty is a form of tax that is levied by the Central Government on the production, sale and licensing of certain goods. It is levied on goods produced in the domestic territory of the country, antagonistic to customs duty. GST however is not applicable on alcohol and thus service tax continues to be levied on alcohol. The three types of excise duty included- basic excise duty, additional excise duty and special excise duty.

2. Value Added Tax

VAT, also known as Value Added Tax, is a type of consumption tax that is imposed on the sale of goods and certain services at different stages of the supply chain, starting from the production phase and continuing until the final sale. It is levied on the price of a product at every stage of its production, distribution and sale. Each step is recorded, evaluated and taxed.

Net payable tax by the taxpayer is calculated in the following way-

Net VAT= Tax collected through sales- Tax collected on purchases

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3. Sales tax

Sales tax is a form of tax levied on the sales of goods and services and is charged at the point of buying or exchange of goods, and is usually charged as a percentage of the price of the product.

4. Customs Duty

Customs Duty refers to the tax levied on goods when they are transported across international borders. This is done to safeguard a nation’s economy, jobs, and environment and to regulate the movement of goods in and out of a country.

5. Service Tax

Service tax is collected by the government on the usage of taxable services provided by travel agents, restaurants, cab services, etc.

One Tax, One Nation prevalent in Chanakya’s time

During Kautilya’s time, this idea of One Tax was evidently seen when the tax rate on income was charged once a year and was set at the rate of 1/6th of one’s income, which comes out to be roughly 16%. The basic premise of Kautilya’s taxation doctrine was that the public should not be exploited by imposing taxes more than their competence to pay.

GST- Goods and Services Tax

Goods and Services Tax was first proposed by Kelkar Task Force on Indirect Taxes in the year 2000. This was done to simplify the previously prevailing complicated and fragmented tax structure into a unified system. This was done to simplify compliance, reduce tax cascading and promote economic integration. It was finally implemented on 1st July 2017 and it even had a GST council for its implementation. Under GST, depending on the type of good, different tax slabs were decided such as 5%, 12%, 18% and 28%. However, essential commodities are exempted from GST and even gold and diamond attract a low rate of taxation.

TAXATION SYSTEMS OF TWO COUNTRIES

Canada

I have decided to study the taxation system of Canada as I aim to someday study in and around US and Canada.

There are mainly four types of taxes applicable in Canada.

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Income Tax- This is dependent on one's residency in Canada. It continues from 1st January to 31st December. The tax return should be filed by April 30th and needs to include both income inside and and needs to include both income earned inside and outside Canada. Canadian taxation is a progressive taxation system- the more one earns, the more taxes one will have to pay.

Tax Rate	Threshold for taxable income
15%	On the portion of taxable income that is $55,867 or plus
20.5%	On the portion of taxable income over $55867 up to $111,733 plus
26%	On the portion of taxable income over $111,733 up to $173,205, plus
29%	On the portion of taxable income over $173,205 up to $246,752, plus
33%	On the portion of taxable income over $246,752

Property Tax

Property tax is applicable on any asset or property one owns in Canada. It varies depending on the location and is collected on a local level. It covers services like water, snow removal, fire protection, etc. The property tax in Canada ranges from 0.8% t over 2.6%, with t averaging around 1.12%.

Corporate Tax

Corporate Tax is applicable even for non-profits and inactive corporations and is paid both on their capital and profits. They are levied both at the federal level and provincial level. Corporate tax rate in Canada varies by nature and size of corporation, and the province where it operates.

Sales Tax System

This is related to the consumption by the population. A Goods and Services Tax (GST) and Provincial Sales Tax(PST) are both levied on goods and services purchased in Canada. Moreover, the sales tax system is different for different provinces. In some provinces, there is a Harmonized Sales Tax (HST) which is formed by the combination of GST and PST. In some provinces, PST is absent. For example, there exists 5% GST in Alberta, British Columbia, Quebec, etc, whereas there is 13% HST in Ontario.

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China

I decided to study China's taxation system as it is a socialist economic system which impacts the rates and types of taxes as compared to democratic and republican countries.

Three Categories of Taxes

Income taxes

IIT- Individual Income Tax is a progressive type of tax levied in China which ranges from 3% to 45% depending on taxable income.

CIT- Corporate Income Tax which is 25% for both local and foreign shareholders.

Goods and Services Tax

This refers to the standard value-added tax (VAT) rate which is about 13%. Reduced rates of 9%, 6% and 3% also exist. Excise tax, and customs duty are also included.

Property and behaviour taxes

These include real estate tax, land appreciation tax, etc.

The real estate tax rate is 1.2% of the original value of buildings. They are calculated on the basis of residual value.

Analysis of One Tax, One Nation Law

To test out the policy of One Tax, One Nation, we use the actual return of one person placed in Ludhiana- using his bank statement and his income tax returns.

Sample ITR Form-

Sample ITR Form.pdf

Bank Statement-

HDFC (1).pdf

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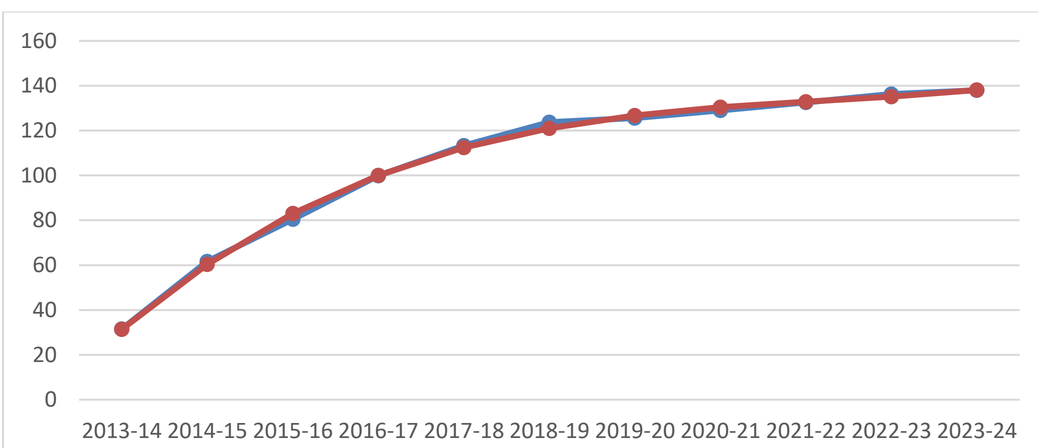
As per income tax returns of this individual, he deposited Rs/. 3539800 at the end of the financial year. If alternatively, we charge 1 percent tax on each transaction made, we get total tax of Rs. 217394.25. The significant difference between these two amounts further points to the benefits of the one tax policy. It would reduce the burden on the common man and help to save time by simplifying the tedious taxation process.

In India, collection of tax is positively correlated to the number of Aadhar Card holders and bank accounts. According to existing data, we know that the total tax collection of the financial year 2023-24 is Rs. 1835806 Crore. At the same time, the total number of saving bank accounts In India are approximately 300 crore.

Year	**No. of Adhaar card holder(in crs.)**		**Caculated**
2013-14	31.53	1	31.425
2014-15	61.61	2	60.443
2015-16	80.47	3	83.031
2016-17	99.92	4	100.071
2017-18	113.29	5	112.445
2018-19	123.71	6	121.035
2019-20	125.57	7	126.723
2020-21	129.04	8	130.391
2021-22	132.56	9	132.921
2022-23	136.28	10	135.195
2023-24	137.96	11	138.095



Growth curve for Number of Aadhar Card Holders (in crores)

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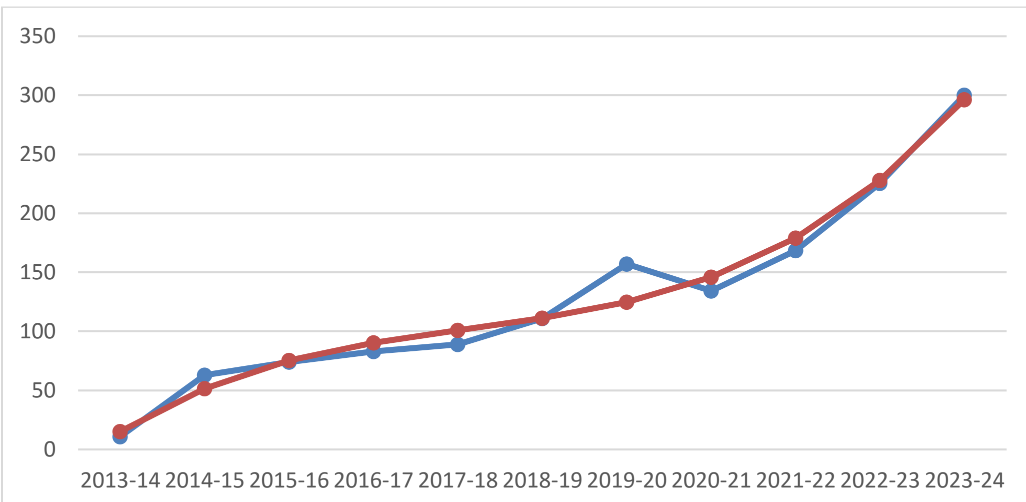
Year	No. of Saving bank account holder in India(in rs. Crs)		Caculated
2013-14	11	1	15.197
2014-15	63	2	51.616
2015-16	74	3	75.359
2016-17	83	4	90.488
2017-18	89	5	101.065
2018-19	111	6	111.152
2019-20	157.1	7	124.811
2020-21	134.4	8	146.104
2021-22	168.5	9	179.093
2022-23	225.5	10	227.84
2023-24	300.1	11	296.407



Growth curve for number of saving bank accounts (in crores)

Year	Transaction linked with adhaar(In crs)		Caculated
2013-14	6	1	-45.324
2014-15	34	2	60.138
2015-16	110	3	255.792
2016-17	404	4	512.394
2017-18	1262	5	800.7
2018-19	1080	6	1091.466
2019-20	1114	7	1355.448
2020-21	1413	8	1563.402

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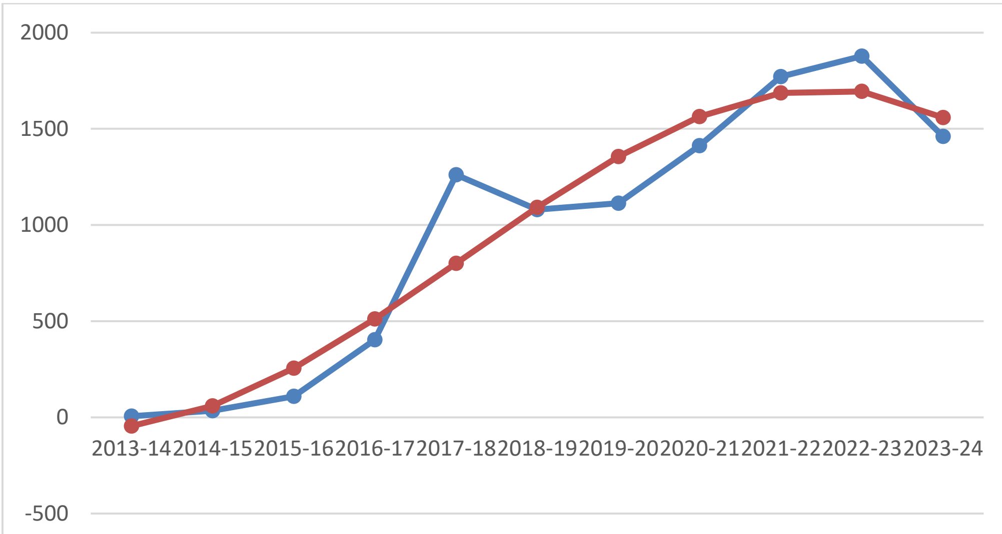
2021-22	1771	9	1686.084
2022-23	1878	10	1694.25
2023-24	1461	11	1558.656



Transaction linked with Aadhar Card

As mentioned earlier, all transactions are linked with the Aadhar Card. In One Tax, One Nation, 1% tax deducted on every deposit amount above Rs. 5000.

Year	**Tax Collection(in crores)**		**Caculated**
2013-14	497060	1	438683.9
2014-15	544772	2	628305.5
2015-16	709825	3	749419
2016-17	861625	4	823555.8
2017-18	911653	5	872247.3
2018-19	937321	6	917025
2019-20	953513	7	979420.2
2020-21	1074810	8	1080965
2021-22	1289662	9	1243189
2022-23	1381934	10	1487626
2023-24	1890259	11	1835806

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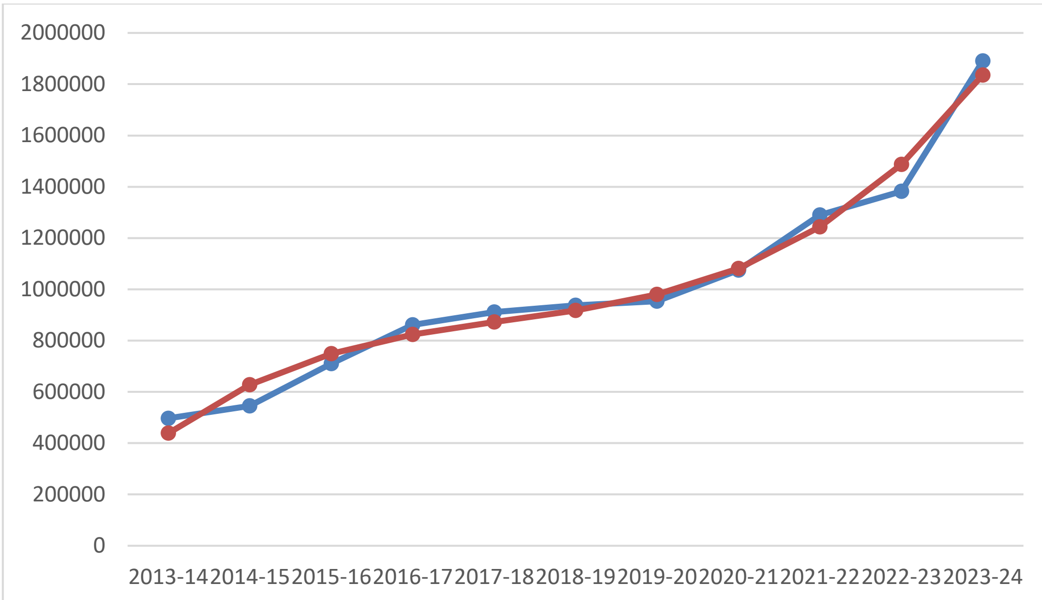
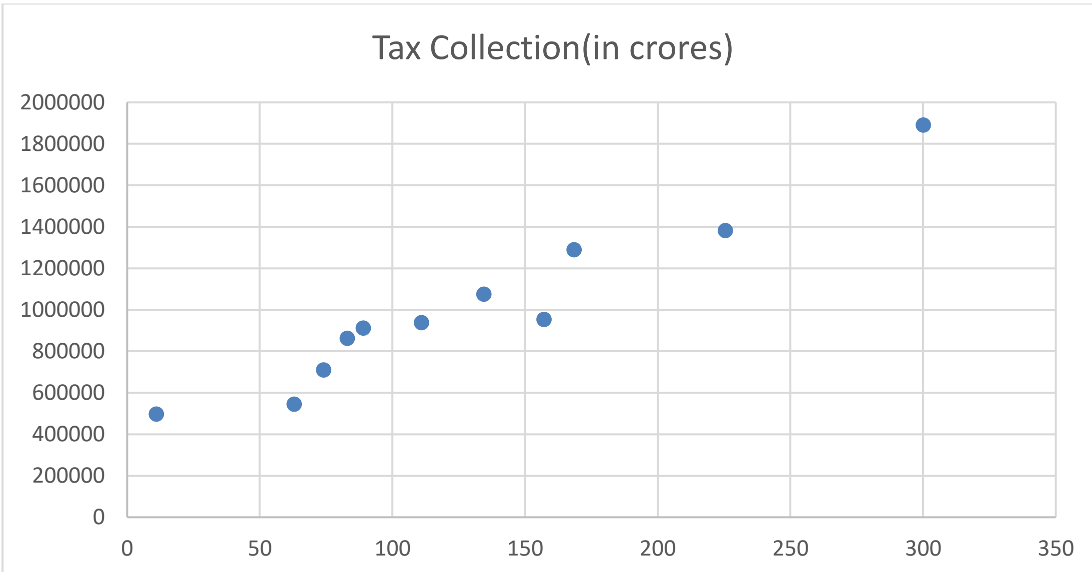


Graph for total tax collection in (crores)

Considering our 300 crore saving bank accounts, if we assume that on an average, Rs 10,000 is the tax given by each individual, we will get a total tax collection of 300 0000 crore. This is a significant amount, given that we are not counting high profile celebrities, industrialists and extremely rich individuals. If we consider these exceptions as well, our total tax collection might become double the amount. This is much greater than the total tax collection of the financial year 2023-24 which is Rs. 1835806 Crore.

Year	**No. of Saving bank account holder in India(in rs. Crs)**	**Tax Collection(in crores)**
2013-14	11	497060
2014-15	63	544772
2015-16	74	709825
2016-17	83	861625
2017-18	89	911653
2018-19	111	937321
2019-20	157.1	953513
2020-21	134.4	1074810
2021-22	168.5	1289662
2022-23	225.5	1381934
2023-24	300.1	1890259

Correlation factor=0.969



Correlation between Tax Collection and Number of Saving Accounts

As in the scatterplot above, there is a positive correlation between number of saving accounts and tax collection. Greater the number of saving accounts, greater the amount of tax collection.

Conclusion

The policy of One Tax, One Nation, through my analysis, seems to be extremely promising and advantageous. Burden on individual taxpayers decreases and the taxation process is simplified, and resources such as time can be saved. Moreover, due to this simplification, calibre and work hours of income tax department employees can be used for other purposes. Their salaries would be saved, which again would benefit the government. Total tax collection increased remarkably, which will ultimately lead to the strengthening of the Indian economy. This increase in total tax collection is central to India's capacity to finance social services such as health and education, critical infrastructure such as electricity and roads, and other public goods. Even though my analysis is only pertaining to a theoretical purpose, still its analysis shows that One Tax, One Nation results in a win-win situation for both taxpayers and the Indian Government.

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