

Sr. No.	Name of Author	Title of Paper	Page No.
31	Dr. Popatrao Ramchandra Mali	Agri-Tourism - Socio-Economic Aspects of Tourism	174 - 177
32	सौ वर्षा सूर्यकांत मस्के	कोल्हापूर जिल्ह्यातील शालेय विद्यार्थ्यांमधील आपत्ती व्यवस्थापन विषयक जाणीव जागृतीचा अभ्यास	178 - 183
33	प्रा. मयूर गौड कु. सनिका सवळेकरी कु. साक्षी येवले कु.दिपली गायकवाड कु. अस्मिता घस्ते	व्हन्नूर गावातील अवलंबन भार प्रमाणाचा चिकित्सक अभ्यास	184 - 186
34	प्रा. मयूर गौड कु. शुभांगी माने कु. अक्काताई कोळेकर कु.निकिता चौगले कु. रोहण पोटळे	व्हन्नूर गावाच्या व्यावसायिक संरचनेचा विश्लेषणात्मक अभ्यास	187 - 189
35	Mr. Mahesha D B Dr. Shivanna	A Study of Geomorphological Changes in the Yetthinahole Catchment Area Using Geospatial Technology	190 - 197
36	Prakash S. Shinde Vinayak H. Mali Jadhav	Assessment of Vegetation Health Using NDVI Derived from Landsat Images: A Case Study of Satara District, Maharashtra	198 - 204
37	Smt. Sarwade Meena Pundalik	Integration of Remote Sensing Data with Multilayer Perceptron Models for Enhanced Weather Forecasting	205 - 209
38	Rajendra Shankarrao Mogane	A Role of SMAK in skill education as a leading Industrial Training Center (ITC) in the Era of globalisation	210 - 215
39	Mr. Rajesh Raghunath Nadhale	An Analytical Study of Impact of Technology in Business Management	216 - 221
40	Mr. Manjurelahi Salimbhai Bagwan	Analysis of Improvements Required in the Direct Tax System in India and the Need for Changes	222 - 226
41	Dr. A. G. Suryavanshi	Application and Challenges of Data Analytics implementing in Accounting	227 - 231
42	Shri. Dattatray Vishwas Nalage Miss. Trupti Vilas Gavankar	Environmental Accounting Practices: Problems and Prospects in Indian Industries	232 - 240
43	Mr. Amey Atmaram Desai	Evaluating Service Quality in Housing Finance: A Comprehensive Study	241 - 246
44	Dr. Rajamane Manjusha Ramesh	Impact of 'Mahila Sanman Yojana' on Financial Performance of MSRTC with Special Reference to Kolhapur Division	247 - 255

Analysis of Improvements Required in the Direct Tax System in India and the Need for Changes

Mr. Manjurelahi Salimbhai Bagwan

Assistant Professor,

Venutai Chavan College, Karad,

Corresponding Author – Mr. Manjurelahi Salimbhai Bagwan

DOI - 10.5281/zenodo.15063695

Abstract:

Direct tax is one of the most important sources of revenue for any country. The direct tax system in India has undergone significant transformations over the years to enhance revenue collection and compliance. However, there are several challenges persist. Challenges like narrow tax base, high rates for individuals and cumbersome compliance procedures. This research paper delves into the key shortcomings of India's current direct tax framework, explores international best practices also proposes actionable reforms to create a more efficient, equitable and growth-oriented system.

Key Words: Direct Tax, Taxation, Income Tax, Corporate Tax

Introduction:

Meaning of Tax and Its Importance in Economy:

Tax is a compulsory financial charge or levy imposed by a government on individuals, businesses, and other entities to fund public expenditures. It serves as the primary source of revenue for governments, enabling them to invest in infrastructure, education, healthcare, and other critical sectors. Taxes also play a vital role in redistributing wealth, reducing income inequality, and stabilizing the economy by influencing consumption, savings, and investments. A well-structured tax system fosters economic growth, promotes social equity, and ensures the efficient functioning of a nation's governance. As shown in below chart 1.1 there are two types of taxes one is direct tax levied upon income and property of the people on the other hand the there is indirect taxes which are imposed upon the goods and service transactions.

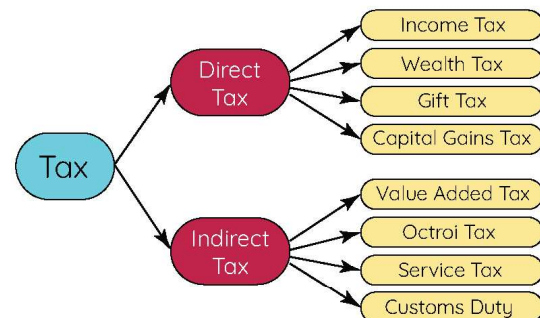


Chart 1.1: Types of Taxes

Meaning and Importance of Direct Tax:

Direct tax refers to the tax levied directly on an individual or organization's income and wealth by the government. Examples include income tax, corporate tax, and property tax, etc. Direct taxes are crucial because they are based on the ability-to-pay principle, ensuring a progressive taxation system where high-income earners contribute more. They play a significant role in reducing income inequalities also it helps in financing public services and fostering economic stability. Furthermore, direct taxes are a transparent source of revenue, allowing

governments to plan and implement long-term development projects effectively.

Direct Tax System in India:

India's direct tax system plays a pivotal role in mobilizing resources for economic development. The system encompasses taxes on income and corporate profits, contributing significantly to the government's revenue. Despite notable progress in recent years, structural inefficiencies hinder its potential. This paper examines the gaps in the existing system and emphasizes the urgent need for reforms to align with the evolving economic landscape and global best practices.

Current Scenario of Direct Taxes in India:

Tax Base: The Indian tax system suffers from a significantly narrow base, with less than 6% of the population contributing to income tax. This low participation is indicative of a broader issue rooted in widespread informal economic activities, inadequate enforcement of tax compliance, and a lack of robust mechanisms to bring potential taxpayers into the tax net. The narrow tax base not only limits revenue generation but also places an undue burden on the compliant taxpayers who bear a disproportionate share of the tax obligations. Expanding the tax base requires addressing structural challenges, including the formalization of the economy, enhancing taxpayer awareness, and streamlining reporting requirements for high-value transactions. Broadening participation in the tax system is essential to ensure fairness, reduce dependency on indirect taxes, and create a sustainable revenue model for the government.

Tax Rates: The Indian tax system imposes high marginal rates on individuals in the upper-income brackets, which can act as a disincentive for productivity and wealth generation. While the progressive nature of

taxation is aimed at ensuring social equity, excessive tax rates often lead to tax avoidance and evasion, reducing the overall efficiency of the system. Balancing the need for revenue generation with the importance of maintaining economic incentives is crucial. Moderating these rates could improve compliance, enhance disposable income, and stimulate consumer spending, thereby fostering economic growth. A restructured approach that reduces the marginal rates while expanding the base could strike a balance between equity and efficiency.

Corporate Taxation: Recent reforms have brought down corporate tax rates for domestic firms to competitive levels, positioning India as an attractive destination for businesses. However, significant challenges persist in harmonizing India's corporate taxation system with global standards. Issues such as the treatment of multinational corporations, double taxation avoidance agreements, and the effective implementation of transfer pricing regulations require attention. Simplifying corporate tax structures, ensuring consistency in policy, and fostering a stable investment climate are imperative to sustain economic growth and attract foreign investments. Addressing these challenges will strengthen India's position in the global economic landscape and enhance its competitiveness.

Compliance Burden: The Indian tax system is characterized by complex filing procedures and frequent policy changes, which deter voluntary compliance among taxpayers. The multiplicity of forms, ambiguous regulations, and lack of streamlined processes contribute to increased compliance costs for individuals and businesses alike. Frequent amendments to tax laws further exacerbate uncertainty and hinder long-term financial planning. Simplifying compliance requirements, leveraging technology for seamless tax

filing, and ensuring stability in tax policies are critical steps to enhance taxpayer confidence and encourage greater participation in the formal economy. Reducing the compliance burden not only improves ease of doing business but also fosters a culture of voluntary compliance, which is essential for the system's sustainability.

Key Issues in India's Direct Tax System:

Narrow Tax Base:

- High dependence on a limited number of taxpayers.
- Significant informal economy contributing to tax evasion.

Complexity and Lack of Transparency:

- Multiple exemptions and deductions create confusion.
- Frequent amendments undermine stability and predictability.

High Litigation:

- Overburdened tax tribunals and courts with prolonged disputes.

Economic Inequity:

- Limited redistribution mechanisms to address income disparities.

Administrative Challenges:

- Insufficient use of technology in tax assessments and audits.
- Inconsistent application of tax laws leading to inefficiency.

Need for Changes:

Broaden the Tax Base:

Broadening the tax base is a critical measure to ensure sustainable revenue generation for governments while promoting economic equity. One key approach to achieving this is encouraging the formalization of the economy. By providing targeted incentives such as tax holidays, simplified compliance procedures, and access to financial resources for small and medium enterprises (SMEs), governments can motivate informal businesses to transition into the formal sector. This not

only enhances tax collection but also fosters business growth and contributes to job creation. Additionally, strengthening reporting requirements for high-value transactions plays a pivotal role in minimizing tax evasion. Implementing robust mechanisms, such as mandatory electronic records, transaction tracking, and stricter enforcement of reporting obligations, can significantly improve transparency and accountability. These measures, combined, expand the tax net by bringing more individuals and businesses into the fold, ensuring a fairer distribution of tax liabilities and creating a more robust financial foundation for public spending and development initiatives.

Simplify Tax Structure:

Simplifying the tax structure is a pivotal step toward creating a more efficient and equitable taxation system. Reducing the number of tax slabs and eliminating redundant exemptions can make the tax code more transparent and easier to understand for taxpayers. A simpler structure minimizes confusion and ensures that individuals and businesses can accurately calculate their tax liabilities without the need for extensive expert assistance. Additionally, a streamlined system helps to reduce opportunities for tax evasion and avoidance, thereby increasing overall compliance. Alongside structural simplification, streamlining procedures to reduce the compliance burden is equally critical. By leveraging technology, such as automated filing systems and digital platforms, governments can significantly cut down the time and effort required for tax compliance. Simplified processes, such as pre-filled tax forms, unified tax filings, and efficient dispute resolution mechanisms, further enhance taxpayer confidence and participation. Together, these measures foster a more inclusive and efficient taxation environment, promoting both voluntary compliance and revenue growth.

Lower Tax Rates:

Lowering tax rates is a strategic approach to fostering compliance and stimulating economic growth. Moderating individual tax rates can encourage greater voluntary compliance by reducing the financial burden on taxpayers and making it more attractive to operate within the formal economy. Lower rates can also enhance disposable income, boosting consumer spending and driving economic activity. Similarly, aligning corporate tax rates with global benchmarks is crucial for attracting foreign investments and maintaining competitiveness in the global market. Competitive tax rates create a business-friendly environment that encourages both domestic and international companies to invest, expand, and innovate. This, in turn, leads to job creation, technological advancement, and overall economic growth. However, lower tax rates must be balanced with robust tax collection mechanisms to ensure that revenue generation is not compromised. By fostering a fair and predictable tax regime, governments can achieve a dual objective of promoting compliance while creating an environment conducive to economic development.

Adopt Technology:

Adopting advanced technology is a transformative step toward creating a more efficient, transparent, and fair taxation system. Leveraging artificial intelligence (AI) and big data analytics for fraud detection enables tax authorities to identify irregularities, uncover patterns of evasion, and predict potential risks with greater accuracy. These technologies can analyse vast volumes of financial and transactional data in real-time, providing actionable insights that strengthen enforcement and improve compliance. Alongside these innovations, expanding the faceless assessment initiative can further enhance transparency and reduce the scope for discretionary decision-making and

corruption. By removing the need for physical interactions between taxpayers and tax officials, faceless assessments promote impartiality and build trust in the system. Digital platforms supporting seamless document submission, virtual hearings, and automated decision-making streamline processes and minimize delays. Together, these technological advancements not only improve the effectiveness of tax administration but also foster a culture of accountability and fairness, ultimately driving higher compliance and revenue collection.

Enhance Redistribution:

Enhancing redistribution through targeted tax policies is a vital strategy for addressing economic inequality and fostering social cohesion. Introducing measures like wealth taxes or higher taxes on luxury goods ensures that individuals with greater financial capacity contribute proportionately more to public revenue. These taxes can serve as a means to curb excessive wealth accumulation and fund essential social and economic programs. Complementing this approach, strengthening social welfare schemes funded by direct taxes is crucial for creating a safety net for vulnerable populations. Investments in healthcare, education, affordable housing, and employment initiatives funded by equitable tax contributions can significantly improve living standards and promote inclusive growth. By effectively channelling resources from wealthier segments of society to those in need, these measures create a more balanced economic environment. Coupled with transparent administration and robust accountability mechanisms, this approach not only reduces disparities but also reinforces public trust in the tax system, fostering a sense of shared responsibility and collective progress.

International Direct Tax System Comparisons

- **United States:** Progressive tax rates combined with robust compliance mechanisms.
- **Singapore:** Simplified tax structure with lower rates to promote growth.
- **Scandinavian Countries:** High tax rates offset by comprehensive welfare benefits.
- **China:** Expanding the tax base through the formalization of the economy.

Proposed Improvements and Reforms:

Legislative Reforms:

- Codify tax laws to minimize ambiguities and ensure consistency.
- Implement a unified tax code consolidating direct and indirect taxes.

Administrative Overhaul:

- Establish faster dispute resolution mechanisms.
- Regularly train tax officials to ensure fairness and efficiency.

Policy Stability:

- Avoid frequent changes in tax laws.
- Introduce long-term policies with periodic reviews.

Benefits of Reforms:

- **Increased Revenue:** A broader base and better compliance mechanisms would boost collections.
- **Economic Growth:** Lower rates and simpler systems would attract investments.
- **Equity:** Progressive reforms would reduce income disparities.
- **Global Competitiveness:** Aligning with international best practices would enhance India's economic standing.

Conclusion:

India's direct tax system requires comprehensive reforms to address its structural inefficiencies and align with

global best practices. By broadening the tax base, simplifying compliance and adopting modern technologies, the government can create a robust framework that promotes equity and economic growth. Urgent action is needed to ensure the direct tax system becomes an enabler of India's development aspirations.

References:

1. Dr. Priyabrata Panda, Dr. Kishore Kumar Das & Prof. Malay Kumar Mohanty, Direct Tax Reform in India: An Impact Analysis with Special Reference to Government Revenue;
2. Dr. Rabinarayan Samantara (2020). Tax System In India: Origin, Structure And Issues Dr. Rabinarayan Samantara Associate Professor in Commerce, Shivaji College (University of Delhi), Raja Garden, New Delhi- 110027. 08(12), 48–60.
3. Das-Gupta, Arindam, Radhika Lahiri and Dilip Mookherjee (1995), Income Tax India: An Empirical Analysis, World Development, Vol. 23, No. 12, pp. 2051-2064, 1995.
4. Nishant Gauge and Katdare, "Indian Tax Structure - An Analytical Perspective", International Journal in Management and Social Science", ISSN: 2321-1784, Vol.03, Issue 09, Sep.2015.
5. Pramod Kumar Pandey, "The Impact of Indian Taxation system on its Economic Growth", Scientific Society of Advanced Research and Social Change, ISSN 2349-6975, Vol.3, Issue 1, January-June 2017.
6. Pitresh Kaushik, Pooja Kansra, Sushanta Kumar Mahapatra, Determinants of Direct Tax in India: A Systematic Review, Tuijin Jishu/Journal of Propulsion Technology ISSN: 1001-4055 Vol. 44 No. 6 (2023)
7. World Bank Group, Ease of Doing Business Reports.
8. www.incometaxindia.gov.in
9. www.clear-tax.com