A Comprehensive Study of Income Tax Laws in the Taxation System of India

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ABSTRACT: Income tax or any other tax is the most important source of government revenue as a lot of money is required in order to carry out the government functions and also a lot of money is also required in order to run the government machinery effectively and efficiently. In order to generate revenue for all these activities collecting tax is the major source of revenue. Power to collect revenue operates in three tire system in India. This paper investigates the Indian economy with respect to income tax regime under Indian laws. This paper also focuses on the drawbacks and merits of laws and regulations of income tax laws under taxation system in India.researchers have also compared the tax framework of India with other countries to assess the lacuna in Indian legal system. Researchers have collected data for the research from secondary sources. Black money, tax evasion cases, bank scandals, limitless exception to agricultural income and many other areas reflect that the taxation system in India needs reform.

Key Words: Income Tax, Tax evasion,Agricultural Income, Economy, Taxation System, Tax Slabs.

Introduction

Tax collection in any country is a major source of state revenue. Development of any country depends upon the collection of tax. The word “Income Tax” is formed by combining two words. Out of these two words the first word is “Income” and the second word is “Tax”. In order to understand the concept of Income Tax clearly we are required to understand the concept of these two words clearly. Now let us see the concept of each word one by one.

The word “Income” is defined under section 2(24) of the Income Tax Act 1931 as,“*the sum of money which any individual and business earns during a particular period of time from the different available sources of Income”*. It means that the money which is received by an individual as salary and wages from the employer who has employed him for doing particular job is the primary source of his income. Similarly in the case of business the revenue which the business receives by performing core functions of business is considered as income of the business. In simple words we can say that income is the earnings earned by an individual during a particular period of time.

Research problem and objectives

Indian taxation system has gone through various changes still it is lagging behind to cop up with the problem of tax evasion and black money. Indian taxation system requires reform to tackle with all these problems.

Objective of this research is understand the Income tax regime in India, various heads of collection of income tax and deductions and to understand and assess the problems in the existing tax scheme in India regarding income tax.

Tax regime in India: Taxable Income

In India the income earned by an individual from the various sources of income is subjected to the taxes. There are two types of income defined under the Income Tax; taxable income and exempted or non-taxable income[1].

Taxable income is the amount of income or that part of income earned by an individual from different sources on which the individual is obliged to pay tax to the government during the financial year. The taxable income is also described as adjusted gross income. The adjusted gross income can be understood as total income which is also known as gross income from which any deductions or exemptions allowed in that financial year are subtracted. The taxable income includes salaries, wages, tips, bonuses and it also includes investments as well as unearned income[2].

Exempted or non-taxable Income

1.Retrieved from: https://cleartax.in/g/terms/income(May. 25, 2020, 12:00 PM).
2.Retrieved from:https://www.investopedia.com/terms/t/taxableincome.asp(May. 25, 2020, 12:05 PM).

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The second type of income defined under Income Tax is exempt or non-taxable income. Exempt or non-taxable income can be defined as the amount or part of the income earned by individual from different sources on which the individual need not to pay any to the government during the financial year. In simple words we can say that there are certain types of income on which the taxes are not charged or we can say that these incomes are tax-free incomes. For example, the income earned from agricultural activities is exempted from taxes provided under the section 10 of Income Tax Act.

Tax is a compulsory payment of the amount which is imposed as a tax on individuals or on the entities according to the guidelines of the government. It is not only in India that the people and the corporations have to pay tax but in almost every country of the world the government of the particular country imposes tax on their citizens and the citizens are obliged to pay the amount which is imposed as tax on them. That is the reason that why paying tax is called as an involuntary process. It means that the tax which the people and entities pay to the government is not out from their will or from their voluntary desire but instead of this the tax paid by the people or the entities is compulsory or involuntary imposition on them in the form of tax according to the rules and regulations of the government which they are obliged to pay whether they wish to pay or not. The primary reason for which the government of any country imposes tax on individuals and corporation in the country is raise the revenue which is the one of the most important thing without which no government of any country in the world can perform their functions for the upliftment of the citizens and for the development of the country[3]. Besides acting as the major source of government revenue taxes also serves many other purposes in the country like maintain the economic equality. By economic equality here means that the person or corporation who earns higher income have to pay a large share of their earning as tax and on the other hand the person or corporation who have smaller earnings have to pay less share out of their earnings as tax. In this way imposition of taxes help a country to maintain income equality among their citizens[4].

A ‘Tax System’ is a set of principles or procedures according to which the government of a country charges and collects tax from the people or corporation. In simple words we can say that a tax system is an organized scheme or method of imposition and collection of taxes. The different kinds of tax systems which are adopted by different countries across world are progressive tax system, Regressive Tax System and Proportional Tax System

Progressive Tax System

The first tax system which we are going to understand is the progressive tax system. In the progressive tax system, the individuals who earn a higher income have to pay an increasingly higher proportion of tax when their income increases. In simple words we can say that progressive tax system as the name of the tax system itself indicates that it is tax which is charged according to the progress of a person as the progress of an individual is calculated or can be known from is level of earning it means if a person is earning higher level of income it can be understood that he is more progressive and if the persons earning level is less that it can be understood that the person is less progressive. In the progressive tax system, the tax is imposed on the individual according to the person progress. It means that if the income level of a person is higher he has to pay higher rate of tax as compare to the person whose income level is lower because on that person a lower rate of tax is charged according that persons earning. A progressive tax system is considered as a method which helps in reducing the inequality in the society by differentiating among the higher earning people and the lower earning people which leads in the economic growth of the nation and this tax system also helps in reducing the unemployment by increasing the purchasing power of the lower earning people.

In most of the countries of the world the progressive tax system is used in order to impose the tax on the citizens because this tax system creates a kind of confidence in the minds of the citizens that the tax which is imposed on them is imposed by adopting a judicial method which is according to their earning capacity. Tax on interest earned from savings and investments, Estate tax and the tax credits for vulnerable groups are some of the well-known examples progressive taxes.

Proportional Tax System

The second type of tax system which we are going to understood is the proportional tax system. In proportional tax system each and every individual pays the same proportion of their income as tax that’s why the proportional tax system is also known as flat tax system. Under proportional tax system the tax is imposed equally on everyone

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3.Retrieved from: https://www.britannica.com/topic/taxation (May. 26, 2020, 10:00 AM).
4.Retrieved from: https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-income-inequality (May. 26, 2020, 1:00 PM).
5.Retrieved from: https://www.intelligenteconomist.com/types-of-taxes/ (May. 27, 2020, 5:00 PM).

without taking into consideration that whether the income level of that person is high or low. In simple words we can say that in the proportional tax rate system the rate of tax at which tax is imposed on the people is constant for everyone it means that the rate of tax doesn't change with increase or decrease of a person's income.

The countries which are following the proportional tax system are Russia and Latvia. The proportional tax system is considered as a fair and easier way to manage everyone as in this tax system no one is exempted as the tax is imposed equally on everyone irrespective of their income level. In some of the states of U.S. like Colorado, Utah, and Michigan a proportional income tax is imposed on the individual. In order to understand the proportional tax system more clearly we can take the example of U.S. sales tax in U.S. all the consumers have to pay a same rate of tax as a fixed percentage of the cost of the goods which they are purchasing.

Regressive Tax System

The third type of tax system is the regressive tax system. In regressive tax system the rate of tax decreases with an increase in the amount subject to taxation. In regressive tax system the situation is just opposite than what was in the progressive tax system as in progressive tax system the person with higher income pays higher tax than the person with lower income but in regressive tax system the persons with a lower earning pays a higher portion of their earning as tax and the person with higher earnings pays a lesser portion of their earning as tax.

A regressive tax can be defined as a tax with a cap it means a tax above which no taxes are paid. Examples of regressive tax are property taxes and sin taxes etc.

Among the three types of tax system the most common tax system is the progressive tax system because the progressive tax system ensures that the low earning people don't lose higher portion of their earning in paying taxes than the high earning people of the society.

Governmental revenue is generated largely by imposing direct and indirect tax. indirect tax is that tax in which the primary burden is imposed on one person but later he succeeds in shifting the burden on other person. Examples of indirect tax are GST, custom duty etc.[5]. Under the direct tax the burden of tax is on the person to whom the tax is imposed and it cannot be transferred on someone else. In simple words a direct tax is that tax which is directly imposed on the person by the government and the person on whom the tax is imposed has to pay the amount of tax himself because he cannot make another person liable for his tax liability. The most well-known example and which is also the major source of government revenue is Income Tax.

Income Tax: Meaning and scope

Income Tax is the tax which is imposed by the government on the earnings or gains of individuals or entities earned during a financial year (In India financial starts on first day of April and ends on the last of March every year). The earnings can be both actual and notional. The income tax rate and the tax slabs according to which the individuals are taxed are decided by the government. The individual's income is taxed according to slabs under which they fall if the income of the person is under the higher income slab a high rate of income tax is charged if the income of the person fall under lower income slab a low rate of income tax is charged. The tax slabs under which the income of an individual is divided in order impose tax on such income keep changing from time to time according to the government policies and economic conditions of the country. There are different kinds of rebates under income tax which is allowed to the lower income group to reduce the impact of tax on their earnings. The government also provides different kinds of tax incentives in order to collect long term funds. There are different tax saving investment schemes if a person invest some part of his income in such scheme then such amount of investment is deducted from that persons gross income which results in the reduction of total taxable income and that ultimately benefits the taxpayer[6].

History of Income Tax in India

In the year 1860 for the first time Income tax was introduced by Sir James Wilson and the reason behind the introduction of income tax was to meet or mitigate the loss which was caused due to the 'military mutiny' in the year 1857.

A separate Income Tax Act was passed in the year 1886 this act of 1886 remains in force for a longer period of time but due to necessities various amendments were done from time to time in this act. Then later in the year 1918 a

6.Retrieved from: https://cleartax.in/s/direct-indirect-taxation-india-explained (May. 28, 2020, 8:00 AM).
7.Retrieved from: https://www.financialexpress.com/what-is/income-tax-meaning/1766226/ (May. 28, 2020, 1:00 PM).

new income tax act was passed and this act of 1918 remains in force for a period of four years because in the year 1922 the act income tax act of 1918 got replace by the income tax act of 1922. Due to the various amendments done in the income tax act of 1922 the acts becomes complicated and the act of 1922 remains in force until the assessment year of 1961-62. Then the government of India in the year 1956 in order to simply the tax law and also in order to prevent the tax evasion referred to the law commission.

In the year 1958 the law commission after the consultation with ministry of law submitted its report. Now at present the income tax law in India is regulated by the act of 1961. This act of 1961 came in force on 1st April 1962 and the act is applicable to whole India also to the state of Jammu & Kashmir this act is known as the Income Tax Act 1961.

Each and every law has some gaps in it and unless such gaps are filled the law cannot be said that the law is complete. Similarly the Income Tax Act 1961 governs the income tax in India and the gaps in the act are filled and the necessary changes in the act which are required in order to make the act effective to meets condition at different time periods are done through Notifications, circulars , Income Tax Rules and judicial pronouncement including rulings by the tribunal[7].

Indian Taxation System Prior to the Introduction of Income Tax

As we have seen in above paragraphs that the Income tax was introduced in the year 1860 for the first time it doesn't mean that before the introduction of income tax the people are not obligated to pay any tax. Even prior to the introduction of income tax the tax was imposed on the people and they are obligated to pay the tax as the concept of income tax was not there prior to 1860 income tax act but still there were other things or we can say there were different procedures and methods according to which the taxes were imposed on the people.

In India the concept of imposing and collecting tax is continuous from the ancient time. Even in the Manu script which is the ancient law giver had performed a well structured system of imposing tax n the people according to Manu the artisans and the traders should pay 1/5 of their profit as tax in gold and silver. According to Manu the person who is engaged in the agriculture work should pay 1/6th, 1/8th, 1/10thshare of their total production as tax. Even in Shrimad Bhagvat the concept of tax is given.In Artha Shastra Chanakya has also mentioned about taxation. Tax was referred as 'Kosh (fund) Mulo (principal/main) Dand (punishment)'[8] by Chanakya. In the ancient time the Indian tax system was productive and it was the combination of direct tax and indirect tax and it was useful in maintaining the flexibility in the tax system[9].

After going through the above paragraph we clearly understand that even prior to the introduction of the income tax in India the concept of tax was there which was continuous from the ancient time and is still continuous in the present time also like in the current time the government is imposing and collecting tax from its citizens similarly in the ancient time it was the king who imposes and collects the tax from its citizens. As prior to the introduction there was different ways and methods which were adopted in order to impose the tax on the people but with the introduction of the concept of income tax a well designed and systematic way or method of imposing the tax was introduced. After looking through this paragraph it is clear that the process of paying tax is continuous from the king's time and is still continuous in the government time. But the purpose of collecting tax from the people is same in government system as it was in the king's system which is the welfare of the people. It means that ultimately the money collected from people as tax is utilized for their benefit only.

Income tax or any other tax is the most important source of government revenue as a lot of money is required in order to carry out the government functions and also a lot of money is also required in order to run the government machinery effectively and efficiently. In order to generate revenue for all these activities collecting tax is the major source of revenue.

2. Developmental and Infrastructural Work

In the current time each and every country across the world is developing day by day and the progress and development of any country can be denoted by how well developed and advanced infrastructure the country have.

8.Retrieved from: https://www.financialexpress.com/what-is/income-tax-meaning/1766226/ (May. 29, 2020, 9:00 AM).
9. Retrieved from: https://taxguru.in/income-tax/kosh-mulo-dand-written-itr-acknowledgement-means.html (May. 29, 2020, 2:00 PM).
10. Retrieved from: https://shodhganga.inflibnet.ac.in/bitstream/10603/254219/7/07_chapter-01.pdf (May. 29, 2020, 3:00 PM).

So in order carry out such developmental and infrastructural work the government of the country require huge fund and the tax collected from the people plays an important role in managing this fund.

3. Protection of the borders

Each and every country across the world shares the boundary of their nation with the other countries in the world the boundary which separate one nation from the other nation is known as border and the it is the responsibility of the government to protect these borders for that the government do fencing on borders and employees the soldiers and also purchase the weapons in order to protect the nation in the time of war. In order to carry out all these protection activities the government requires money and the money paid as tax by the people helps the government to carry out all these activities.

4. Educational and Health Facilities

Good education and health of the citizens are the strongest pillars of a nation that helps the nation to develop. So it is the prime responsibility of the government of a nation to ensure that all its citizens are getting good primary education and health facilities either free of cost or at a minimal cost. For providing good health and educational facilities to all citizens free of cost or at a minimum cost the government require a huge fund for that they collect tax from the citizens for their benefit only.

5. To maintain equality in the society

In every society there are two groups of people living one is the group of richer people and another group is of the poor people. So if the government doesn't impose tax on the income earned by the richer people the richer group will become richer and the poor group will become poorer and this will lead to situation of inequality in the society that why it is very necessary to impose tax on the richer section of the society and the amount collected as tax should be allocated in a judicial way in order to maintain the equality in the society.

Advantages of Income Tax

1. Equitable

The burden of the income tax cannot be shifted on other person because income tax is direct tax and the person on whom the tax is imposed himself have to pay the tax and under income tax the persons with lower incomes is also exempted. But in case of taxes which are imposed on the commodities are same for both rich and poor. The taxes imposed on commodities increases the price of the commodities which is same for rich and poor.

2. Economical

In the case of direct taxes the cost of collecting tax is very low because most of the direct taxes are deducted at the source only. Like in the case of income tax the amount of income tax is deducted from the persons pay every month. In this way a lot of expenses which is required for collecting tax are saved. When the employer deducts the tax from employee's income he is acting as an honorary (unpaid) tax collector. This saving in case of collecting tax means a lot for the economy.

3. Certain

Under the direct tax there is certainty on both sides on the side of tax payers as well as on the side of authorities. Because the taxpayers knows how much amount they have to pay as tax and the authorities also know about the amount of revenue they can expect from tax. This certainty on both the sides helps in reducing the corruption by the officials who are engaged in collecting tax.

4. Elastic

The direct taxes are elastic in nature it means in the case of emergency if the country requires huge fund that fund can be easily arranged with the help of direct taxes. Like in the case of emergency the rate of income tax can be increased in order to arrange more funds for the nation.

5. Develops Civic Sense

In case of direct tax or income tax the person who is paying tax has knowledge that he is paying tax he becomes conscious of his rights. And the person who is paying tax also claims his right to know that the money which he is paying as tax to the government is used in the productive way or not. The person also has a right to appreciate or criticize the way in which the government is utilizing the tax money. All these things make the people responsible citizens.

Drawbacks of Income Tax

1. Inconvenient

One of the greatest disadvantages of direct tax or income tax is that it pinches to the taxpayer. As a part of total income of the person is deducted from its total income and he feels inconvenient that without getting something in return a part of his total income is taken. This makes him feel like pinched and it is true that nobody like to be pinched.

2. Evadable

In the case of income tax the assessee can submit the false return of his income in order to evade tax. That is the reason the direct tax or income tax is considered as a 'tax which depends on the honesty of people who are paying tax'. If the taxpayer is honest he will submit the true report of his income for the purpose of calculation of tax on that income and if the taxpayer is not honest he will not submit the actual report of his income inorder to conceal his income to evade his tax responsibility. It is true that there is a lot of tax evasion is done by the taxpayers.

3. Arbitrary

The rate of taxes according to which the income tax is imposed on the incomes of people is decided by the finance minister so there are chances of arbitrariness in fixing of these tax rates. In simple words it can be said that the rates of income tax depends on the whims of the finance minister.

4. Disincentive

If a countries taxation system involves heavy taxes then this will result in the reduction of the countries investment. If the government of a country is imposing heavy taxes and also not providing any tax incentives then in that case due to the heavy taxes the foreign investors will not wish to invest in that country. And due to the reduction in foreign invest the business and industries of the country will have to suffer and this will also harm the country economically[10].

Income Tax: Legal framework in India

1. Income Tax Act 1961

The Income tax Act was enacted in India in the year 1961 the act is a comprehensive statute with the main focus to govern the taxation in the country with the help of different rules and regulations. The act provides the procedure through which the Indian government administers, levy, recover and collect income tax in India. In order to deal with the various income tax aspects in India the act provides 23 chapters and 298 sections[11]. In India the Income tax Act of 1961 controls and regulates all functions and working related to the income tax. All the major provisions related to the income tax in India[12].

The income tax is imposed on the total earnings of a person which he earns during the financial year. The word person includes, an individual, a Hindu Undivided Family, a company, a firm and an association of person or a body of individuals is considered as person under income tax act whether incorporated or not. [13]

The taxpayer who is obligated under the income tax act to pay taxes or any other sum of money is known as assessee. The word assessee is defined under section 2(7) of the income tax act 1961. The obligations payable like interest, fine, penalty and other tax etc will be included in the expression 'any other sum of money'. Section 2(9) of the income tax act 1961 defines 'assessment year' as it is a time period of twelve months which starts on the 1st day of April every year and it end on the 31st day of March of next year. In simple words the assessment year is the year in which assesses previous year income is taxed.

2. Finance Act

The finance minister of India every year presents the budget in the parliament of India. Every year if there is any change in the income tax slabs and income tax rate is provided in the finance act. The finance bill becomes finance act once when the finance bill is passed through the parliament and gets the clearance by the president.

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11. Retrieved from: https://www.economicsdiscussion.net/taxes/advantages-and-disadvantages-of-direct-taxes-discussed/1950 (May. 30, 2020, 11:00 AM).
12. Retrieved from: https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx (May. 31, 2020, 9:00 AM).
13. Retrieved from: https://www.aegonlife.com/insurance-investment-knowledge/income-tax-act-1961/#:~:text=Income%20tax%20in%20India%20is,and%20subsidies%20among%20other%20options (May. 31, 2020, 10:00 AM).

[13]Section 2(31) of the Income Tax Act 1961

3. Circulars and Notifications

Many times it happens that some provisions of the act are not clearly explaining its meaning and in order to explain its meaning it requires clarification on that part of the provisions. The CBDT from time to time issues circulars and notifications in order to remove the loop holes which are present there in the provisions of the act and these notifications and circulars also helps in understanding the meaning of provisions more clearly.

Central Board of Direct Taxes is the department which regulates Income Tax in India

The CBDT (Central Board of Direct Taxes) is the statutory authority which carries out their functions according to the Central Board of Revenue Act, 1963. The officers of the board under their ex-officio capacity help in the matters of levy and collection of direct taxes as a division of the ministry. In simple words we can say the administration of direct taxes in India is looked by a body which is Central Board of Direct Taxes. In Indian CBDT is empowered to make rules and regulations which it requires for the functioning of the Income Tax[14].

Elements of Income

1. Cash or kind

Cash is not only the single source in which a person can receive the income it can be received in the kind also. The income which is earned from the kind is calculated and a different treatment is done in both direct and indirect tax. The valuation is done when the income is received in kind.

2. Legal or Illegal Income

As all the laws and acts are formed considering only the legal aspects of things like similarly if we talk about the income earned by a person on which tax is imposed under the income tax act. The lay man understanding on this will be like that the income tax is imposed on the legal income of a person only. But in reality the income tax makes no difference between legal or illegal income. In order to understand this more clearly we can take the help of the following case law:

CIT v. Piara Singh

In this particular case the party was engaged in the business of smuggling. In this the Supreme Court said that the loss caused in the business of smuggling shall be allowed deduction under the income tax. The rationale that was drawn from the decision is that even the smuggling is also regarded as business. That's the reason that the confiscation of the currency notes used in smugglings is considered as a direct loss which arises in carrying out the business[15].

3. Temporary or Permanent

The nature of income whether it is temporary or permanent doesn't make any distinction in the computation of income under the Income Tax Act.

4. Receipt or Accrual basis

The income can be arises in receipt basis or accrual basis. The income can be accrued to a taxpayer without its actual receipt. In some of the cases the income is deemed to accrue or arise without its actual accrual or receipt. A person's income is said to be accrue where he gets the rights to receive the income.

5. Gifts

There are different occasions on which a person gets gifts and sometimes the person also receives many expensive gifts which ultimately results in increasing in his wealth. When a person receives the gifts of the amount upto Rs. 50,000 doesn't create any tax liability. When the gifts are received in kind upto a fair value of upto Rs. 50,000 is not taxed. But when the value of the gifts exceeds the limit of Rs. 50,000 then the tax is imposed on the whole amount. The gifts which receives on the special occasion like in marriage there is a different treatment for the valuation of such gifts.

6. Lump sumor Installments In income tax at the time of computing the income there is no distinction made between the incomes whether it is received in lump sum or in installments[16].

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14. Retrieved from: https://www.incometaxindia.gov.in/pages/about-us/central-board-of-direct-taxation.aspx (Jun. 1, 2020, 1:00 PM).
16. Retrieved from: https://indiankanoon.org/doc/528298/ (Jun. 1, 2020, 5:00 PM).
17. Retrieved from: http://lawtimesjournal.in/introduction-and-basic-concept-of-income-tax/ (Jun. 2, 2020, 2:00 PM).

Income heads according to the Income Tax Act 1961

According to section 14[17] of the Income tax act of 1961 there are five major sources of income for an individual according to the income tax. In order to know the amount of income tax which a person has to pay to the income tax department the computation of income tax plays an important role and the tax is calculated according to the income of a person. In order to do a hassle-free calculation of it is necessary that the income should be classified properly into different heads so that the confusion regarding the source of income can be removed. The government in order to compute the income tax on the income properly classified the sources of into five heads[18].

Following are the five heads in which the sources of income are classified.

1. Income from Salary

The first head of income that is given under the income tax is 'income from salary'. Under this head all the remuneration which a person receives against the services provided by him under the contract of employment. The income received by a person can only called as income from salary when there is an employer –employee relationship exists between the payer and payee. In simple word when the employer pays money to his employee for the work done by the employee or the employer in the course of employment then such income of employee is the 'income from salary'. Salary also includes pension, gratuity and commission, advance salary, perquisites and also includes the annual bonus.

Some important things under the head income from salary:

Allowances

The fixed monetary amount paid by the employer to the employee in respect of the expenses related to office work is called allowances. The allowances are generally included in the salary of the employee and the tax is imposed on whole income from salary including the allowances also unless there are some exemptions available for the same.

There are specific tax exemptions which are allowances allowed by the employer which are considered as a part of salary:

a) Conveyance Allowance

When the employee is getting conveyance allowance upto Rs 800 is exempt from tax.

b) House Rent Allowance

The employees who are living in the rented house can claim house rent allowances in order lower the taxes. The house rent allowance is completely or completely exempted from the taxes.

The deductions which are available in income tax for the allowances are the minimum amount of the followings:

(i) Amount received as house rent allowances

(ii) The person living in metro cities get 50% deduction of the basic salary + DA and the persons living in non-metro cities will get 40% deduction.

(iii) In case of rent paid the person gets 10% deduction of the salary.

C) LTA (Leave Travel Allowance)

When the employee along with his family goes on leave the expenses which occurs in travelling is known as LTA. When this LTA is paid to the employee twice in a period of 4 years it is tax-free.

d) Medical Allowances

The allowance given to the employee for the medical expenses of the employee or his family is known as medical allowance. The medical allowance is tax free upto the extent of Rs. 15,000 per annum.

e) Perquisites

Section 17[19] of the income tax act 1961 deals with the perquisites the perquisites are the benefits which an employee gets in addition with his salaryduring the course of his employment. The employee gets a right to get

18. Taxmann's, Income Tax Act 1.176 (64th edition 2019)

19. Retrieved from: https://www.legalraasta.com/itr/income-tax-heads/ (Jun. 3, 2020, 8:00 AM).

20. Taxmann's, Income Tax Act 1.178 (64th edition 2019)

perquisites through his employment. Some of the perquisites are taxable for all categories employee while there are some perquisites which are taxable only for a specific group of employees.

2. Income from House Property

The second head of income that is given under the income tax is 'income from house property'. From Section 22 to 27[20] of the income tax act 1961 provides the provisions for the computation of the total standard income which the person earns from the house property or the land own by him. The interesting aspect is that the charge is not derived from the amount received as rent but it is derived out from the property or from the land. But the income from the rent will be considered in the case when the property is utilized to let out for the normal course of Business.

3. Income from the profits of Business

The third head of income that is given under the income tax is 'income from the profits of business'. Under this head the computation of the income is done on the basis of the total income earned from the profits received from the business or from the profession. The tax will be charged on the amount which will come after deducting all expenses from the total revenue.

Following are the incomes which are chargeable under this head of income:

a) The profits earned during the assessment year by the assessee.

b) The profits earned on income by an organization.

c) The profits earned through the sale of certain licenses.

d) The cash which an individual receives through the export under a government scheme.

e) Any profit, salary or bonus which is received through the partnership in any firm.

f) The benefits which are received in a business.

4. Income from Capital Gains

The fourth head of income that is given under the income tax is 'income from capital gains'. Capital gains are the gains which are earned when the capital assets are sold or transferred by the assessee. Capital assets are those assets which are procured for the investment purchase and not for the resale purpose. The gains earned by selling of property and share are also the capital gains.

5. Income from other Sources

The fifth head of income that is given under the income tax is 'income from other sources'. The sources of income which is not covered under the above mention four heads of income will we covered under the head 'income from other sources'. Section 56(2)[21] of the income tax act 1961 mentions the different sources of income which will fall under the head income from other sources these are lottery awards, interest form bank deposits, gambling, card games, and other sports awards will be included in this category. The income from these sources will also be chargeable for income tax.

Impact of imposing Income Tax on people's life

The imposition of taxation affects the lives of the people a lot in many ways. Like due to the imposition of tax on the people income results in the reduction of the person's disposable income (the amount available with the person that he can spend according to his wish). If the person's disposable income is reduced then it will result in the reduction of expenditure done by the person on buying his necessities. As if the person is unable to buy the necessities which helps him to improve his working efficiency will leads the reduction of his work ability and he will not be able to earn more that will ultimately affects his saving and investment plans. The impact of imposing tax is more on poor people and least on the richer people as the earning of poor people is already less if the tax is imposed on them it will impact their earning a lot but in the case of richer people their earning is more and if the tax is imposed on them it doesn't affect their income much.

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21. Taxmann's, Income Tax Act 1.187-1.194 (64th edition 2019)

22. Taxmann's, Income Tax Act 1.424 (64th edition 2019)

The imposition of tax effects the person's willingness to work adversely because the taxes which are imposed on the person's earning are continuous it means that it is not just for the one year that the person has to pay tax on its earning but he have to pay the tax on his earning every year and the continuation of paying taxes effects his psychology he feels like there is no benefit in putting more hours in working because ultimately one part of income he has to give as tax. In this way the people's willingness gets hampered and due to the people less willingness to work ultimately effects the total production of the nation. In this way it can be seen that the imposing of tax on people proves like a disincentive which impact the psychology of people for doing their work according to their best ability. And when the people start thinking that they are not going to work for longer hours it will also results in a decline of the living standard of the people of the nation. And this decision of not working for longer hour not only affects the living standard but also adversely impact the saving and investment plans of the people which will prove a major drawback for the countries income[22].

Income Tax's role in the Indian Economy

In the Indian economy the direct tax or Income tax has a less contribution than the contribution given by the indirect tax in the Indian income. The reason behind why the income tax or direct tax's contribution is less in Indian economy is that income tax is imposed according to the income earned by the people and also there is set limit of income. If the income earned is more than that set limit then only the income tax is charged on that income but in India the major population's income is less than this set limit so they their income is exempted from charging income tax on that. Only a small portion out of the total population of India is earning the income which is more than this set limit and the income tax is charged on this income only. In India there is a progressive income tax system it means that high rate of tax is charged on the richer people and a less rate of tax is imposed on the poor section of the society. In the small portion of population whose income is more than the set limit a very less number of people comes in the richer section group on whom high rate of income tax is charged that's the reason why the direct tax or income tax's contribution is very less in the Indian economy as a very less amount of revenue is generated from the direct tax or income tax. On the other hand if we talk about why the contribution of indirect taxes is more in Indian economy is because the indirect taxes are imposed on the goods and services and not on the income of the people. In case of indirect tax the tax is included in the price of goods and services and the prices are same for each and every person it means there is no bifurcation in prices of goods and services for rich and poor people. Thus both the rich and poor pay the same amount for purchasing the goods and services thus the same amount of tax is collected from rich and poor it ultimately increases the revenue generated through indirect taxes which is the major source of tax revenue in India and plays an important role in the Indian economy.

The idea of how less the role of income tax in Indian economy can be taken by the percentage of revenue generated through income tax. From the last six years the revenue collected through income tax is 40.24% of the total revenue which is generated through the direct tax in India[23].

Income Tax Slabs[24]

In India there is a slab system according to which the income tax is levied on the individual taxpayers. In this slab system there are different tax rates which prescribed for different slabs. The rate of tax increases according to an increase in the income slab. These tax slabs keeps on changing through the budget which is introduced every year. The individual taxpayers are categorized into three categories which are as follows:

1. First category is of the individuals who are below the age of 60 years which includes both residents as well as non-residents.

2. Second category is of the senior citizens in which individuals of 60 and above years but less than 80 years is included.

3. The third category is of the resident super senior citizens in which citizens above the age of 80 years is included.

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23. Retrieved from : https://www.economicsdiscussion.net/government/taxation/economic-effects-of-taxation-top-6-effects/17454#:~:text=Taxation%20on%20rich%20persons%20has,efficiency%20and%20ability%20to%20work.&text=There%20are%20some%20harmful%20goods,goods%20to%20curb%20their%20consumption. (Jun. 4, 2020, 11:00 AM).
24. Retrieved from: https://www.indiatoday.in/news-analysis/story/as-india-aims-for-5-trillion-economy-direct-tax-data-show-wealth-concentrated-in-3-states-1610818-2019-10-23 (Jun. 5, 2020, 3:00 PM).

25. Retrieved from: https://cleartax.in/s/income-tax-slabs (Jun. 6, 2020, 12:30 PM).

For the FY 2020-21 (AY 2021-2022) the Income Tax Slabs according to the new tax regime for new individuals is as follows:

Slab of Income Tax	**Rate of Tax**
Income upto Rs 2.5 lakh	Tax free
Income from Rs 2.5 lakh to Rs 5 lakh	The tax is charged at the rate of 5% (A tax rebate of Rs. 12,500 is available under section 87A)
Income from Rs 5 lakh to Rs 7.5 lakh	The tax is charged at the rate of 10%
Income from Rs 7.5 lakh to Rs 10 lakh	The tax is charged at the rate of 15%
Income from Rs 10 lakh to Rs 12.5 lakh	The tax is charged at the rate of 20%
Income from Rs 12.5 lakh to Rs 15 lakh	The tax is charged at the rate of 25%
Income above Rs 15 lakh	The tax is charged at the rate of 30%

The Slabs and the Rate of tax on the income of the persons for the Financial year of 2019-20

I.

Slab of Income Tax	**The Rate at which the tax is charged on the individuals and HUF who below or of the age group of 60 years**
Income upto Rs 2,50,000	Tax free
From Rs 2,50,001 to Rs 5,00,000	The amount which exceeds from Rs2,50,000 On that total excess amount 5% is charged as Tax.
From Rs 5,00,001 to 10,00,000	Rs 12,500+ The amount which exceeds from Rs5,00,000 On that total excess amount 20% is charged as Tax.
Income above Rs 10,00,000	Rs 1,12,500+ The amount which exceeds from Rs10,00,000 On that total excess amount 30% is charged as Tax.

II.

Slab of Income Tax	**The rate at which the tax is imposed on the Senior Citizens in the age group of 61 to 80 years.**
Earning upto Rs 3,00,000	Tax Free
Earning from Rs 3,00,001 to Rs 5,00,000	On the excess amount from Rs 3, 00,000. 5% on total excess amount is charged as Tax.
Earning from Rs 5,00,001 to Rs 10,00,000	On the excess amount from Rs 5, 00,000. 20% on total excess amount is charged as Tax.

Earning more than Rs 10,00,000	On the excess amount from Rs 10, 00,000. 30% on total excess amount is charged as Tax.

III.

Slab of Income Tax	The rate at which the tax is imposed on the Super Senior Citizens who are above the age 80.
Earning upto Rs 5,00,000	Tax Free
Earning from Rs 5,00,001 to Rs 10,00,000	On the excess amount from Rs 5, 00,000. 20% on total excess amount is charged as Tax.
Earning more than Rs 10,00,000	On the excess amount from Rs 10, 00,000. 30% on total excess amount is charged as Tax.

Methods of Calculating Income Tax[25]

There are two methods of accounting through which the income tax can be calculate and these two methods are permitted by the income tax act. The first one is the mercantile system of accounting and the second one is the cash system of accounting. Now lets us see both the methods one by one.

Mercantile System of Accounting

According to the mercantile system of accounting all the transactions should be recorded at the time of happening of these transactions like the income should be recorded when it is accrued whether the income is received in cash or not similarly the expenses should also be recorded when they become due whether they are paid in cash or not. The mercantile system of accounting is used when the income tax is to be calculated for income from salaries, income from property and income from capital gains. According to the mercantile method the taxpayer has to pay the tax on income even if he doesn't receive the income.

Cash System of Accounting

According to the cash system of accounting all the transactions should be recorded only at the time of receiving the cash and paying the cash. It means the income should be recorded only when it is received in cash. Similarly the expenses should also be recorded only when they are paid in cash. According to the cash method the taxpayer is liable to pay the tax on the income in the year in which he receives the income. In simple words in this method the tax liability is postponed to the year in which the actual income is received.

In the case of income from the profits and gains of business or profession and the income from other sources the taxpayer has a choice to choose either the mercantile method or the cash method for the purpose of calculation of the income tax.

ITR (Income Tax Return)[26]

The income tax return or the ITR can be defined as the ITR is a kind of form through which a taxpayer gives the information about his income earned during the year and also about the tax paid during the year to the income tax department. The taxpayer's liability of paying tax is calculated on the basis of the income earned by him. If the ITR shows that the taxpayer has paid excess tax in the year in that case the taxpayer gets a right to get refund of the excess amount paid by him from the income tax department.

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26. Retrieved from: https://economictimes.indiatimes.com/wealth/tax/2-accounting-methods-to-calculate-income-tax/articleshow/68956220.cms?from=mdr (Jun. 7, 2020, 8:30 AM).

27. Retrieved from: https://www.hdfclife.com/insurance-knowledge-centre/about-life-insurance/what-is-income-tax-return#:~:text=An%20Income%20tax%20return%20 (ITR, on%20his%20or%20her%20income. (Jun. 8, 2020, 4:30 PM).

According to the income tax laws it necessary for the individuals or business to file the income tax return every year on the basis of their earnings during the financial year. The income can be in the form of salary, income from house property, profits from business, capital gains and from other sources. Every year the date of filling the return is fixed by the finance ministry and the individuals or business are obligated to file their return on or before that specific date. If they fail in filing the return on that specific date they have to pay the penalty for the delay.

Major Deductions available under Income Tax 1961

The taxpayer in order to reduce his taxable income on which has to pay tax can claim the deduction which is provide under the income tax act 1961. These deductions reduce the taxable income of the taxpayer and thus results in reducing the amount of tax which the taxpayer is obliged to pay to government. Following are deductions available under the income tax act 1961:

1. from Section 80C to 80

With the help of Section 80C, 80CCC & 80CCD of the income tax act 1961 the taxpayer can reduce his taxable income by Rs. 1, 50,000.

2. Section 80CCD

When a taxpayer has invested in the New Pension Scheme (NPS) and in Atal Pension Yojana (APY) he can claim the deduction in the income tax under the section 80CCD of the Income Tax Act 1961.

3. Section 80D

The taxpayer can claim the income tax deduction for the medical expenses and health insurance premium paid by him under section 80D of the income tax act 1961.

4. Section 80DD

According section 80DD of income tax act 1961 the taxpayer (resident of India and HUFs) who had paid for the medical treatment of a dependant who is disable or differently abled the taxpayer can claim deduction in income tax.

5. Section 80DDB

Section 80DDB of the income tax act 1961 provides income tax deduction to the taxpayer for the amount paid for the treatment of specific illness.

6. Section 80TTA

The individuals and HUF can avail a deduction of Rs. 10, 000 on the income received as interest under section 80TTA of the income tax act 1961.

7. Section 80U

Physically disabled persons can avail a deduction of upto Rs. 1, 00,000 under section 80U of the income tax act 1961[27].

Income Tax System in other Countries[28]

Income Tax in Australia

In Australia the income generated through the income tax is the major source of government revenue in the Australian system of taxation. In Australia the income tax consists of three main pillars which are personal earnings, capital gains and business earnings. The Australian government follows a progressive income tax system which means higher the income you earn more the tax you have to pay and lower the income you earn less the tax you have to pay. The work of imposing income tax on individual in Australia is carried out by their federal government.

Income Tax in America

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28. Retrieved from: https://www.aegonlife.com/insurance-investment-knowledge/income-tax-act-1961/#:~:text=Income%20tax%20in%20India%20is,and%20subsidies%20among%20other%20options. (Jun. 9, 2020, 1:30 PM).

29. Retrieved from: http://lawtimesjournal.in/introduction-and-basic-concept-of-income-tax/ (Jun. 10, 2020, 7:30 PM).

Likewise in India in America also the progressive approach of income tax is followed it means the person earning more have to pay more tax. In USA the Internal Revenue Service (IRS) is the authority who is responsible to levy the tax and collect the tax from the individuals. The United States tax is operated at both federal and state level. Both the federal and state have their own tax system and have their own authority to charge tax. As each and every state has their different tax system it makes the U.S. tax system quite complex.

Income Tax in China

In China a residence-based income tax system is followed it means all the person who are working in china whether they are Chinese or foreigners they have to pay a tax on their earnings which is known as Individual Income Tax or IIT. China tax system is a complicated tax system. Following are the basis on which it is decided whether a person is liable to pay IIT or not and if liable then to what extent he is liable:

1. First thing is to know that whether the person is living in China.

2. Second is if the person living in china is a expatriate (a person who lives outside their native country) then the time period of his living is to be find out.

3. Third is to know about from what source the income is coming.

4. Fourth is to find out who is bearing the person's salary cost.

Income Tax in United Kingdom

In UK the tax is imposed according to the person's ability to pay the tax it means that the person who is earning more is assumed able to pay or tax than the person who is earning less. The major taxes which are imposed in UK are income tax, UK inheritance tax, property tax, value added tax, tax on capital gains. In UK the revenue generated through taxes is the government's main source of revenue.

Reasons for lower collection of income tax in India

Tax evasion is the major problem in lower income collection may lead to failure of government to meet fiscal deficit target. Tax evasion happens when a person hides his taxable income by illegal means such as manipulation of financial statements, receipts books, sales, account books. Black money and tax evasion encourage the control of economy by such groups. Tax is the fundamental source of the revenue of the government, tax evasion brings halt in the economic growth of the country. While tax avoidance is permissible by taking the benefits of deductions and showing low income, tax evasion is an illegal act. Tax structure need to see the difference between to two.

High tax rate is the prominent reason for the tax evasion which can be lowered down by reducing the tax rate. Accounts of public party must be checked regularly. Agricultural income which is outside the taxation regime[29] is an easy way to avoid tax by purchase of agricultural land and showing the income under that head.A person can be an owner of unlimited agricultural income without paying a single rupee for the tax. If any head is not subject to taxation, it means farmer is not the only beneficiary but all those who want to hide their money can conspire to use this head from escaping the liability. According to reports[30] approximately 60% of Indian citizens are holding agricultural land. All rich people and politicians are the owner of agricultural income. Most of the black money is converted in to white money by showing agricultural exemption. This has become an easy way for hiding black money and tax evasion. Government is fully aware about the misuse of this tax free head. Tax evasion can be eliminated if a proper legal mechanism is developed to keep check on these issues.

Analysis of slow growth in income tax collection

As per the report published in business today, in the assessment year 2018-2019, government could collect only 39.4% of the total target. while in 2017-2018 it was 44.2% .[31] There is hardly about 8% increase in the collection. In the year 2019-2020 it has fallen about 6%. The reason can be the lower tax slab introduced by the government in current financial year such as 22% for companies and 15% for manufacturing unit. Thus the major share of

[29] Section 10(1) of the Income Tax Act, 1961

[30] https://timesofindia.indiatimes.com/india/slide-in-farm-size-but-women-land-owners-rise-agri-census/articleshow/66035943.cms#:~:text=The%20Census%20found%20that visited on 16/7/2020

[31] https://www.businesstoday.in/current/economy-politics/total-tax-collection-in-1st-half-of-the-year-lowest-in-5-years-at-rs-607-lakh-crore/story/387859.html visited on 15/7/2020

corporate tax contribution is majorly hurt. Government's collection of income tax is less than 50% of its target so the GDP growth is also slowed down.

The following chart reflects the slowing down collection of revenue for government.

BusinessToday.In

SLOWING TAX COLLECTION (IN ₹ CRORE)

Till Sept	Target	Actual tax revenue	As % of BE
FY20	16,49,582	6,07,429	36.8
FY19	14,80,649	5,82,783	39.4
FY18	12,27,014	5,42,358	44.2
FY17	10,54,101	4,48,155	42.5
FY16	9,19,842	3,69,736	40.2
FY15	9,77,258	3,23,191	33.1

BE: Budget Estimate

Conclusion and Suggestions

We know that that each and everything in this world have two aspects which are positive and negative aspects similarly like a coin have to faces like head or tail. It depends on the person which aspect of a thing he wants to see if he wish to see positive aspect he will see the positive aspect of that thing if the person wishes to see negative aspect of the thing he will only see the negative aspect of that thing only. After going through this study it can be observed that the citizens of India have taken the imposition of tax on their income in a negative way. When the taxpayers are paying the tax to the government they feels like why they are giving a part of hard earning to the government and getting nothing in return. This mentality behind paying tax is psychologically harming the taxpayers and this creates a very adverse impact on their working capacity. The thinking of taxpayers is completely changed now they think that they are not going to work for the longer hours in order to earn more because they know that if they earn more they have to pay more tax. This type of thinking is not only bad for the lifestyle and working ability of the taxpayers but it is also adversely impacting the economy of the nation also.

The government should take initiative in order to educate the citizens by arranging seminars and by using other method about the positive aspect of imposing the tax o them the government should try to communicate to its citizens that it is only for their benefits that they are collecting tax from them so they can live a safe protected and healthy life with allmodern technologies and advancement with the help of a well developed infrastructure in the nation. The government should also try to provide some tax incentives to the taxpayers in order to motivate them to earn more by dedicating more hours to work and to work with their best capacity this will not only help to improve the condition of taxpayers but also contributes a lot to the economy of the nation. As there are very small portion of total population is paying tax and among that small portion also many people are evading their tax liability by producing false income statements. The government should take strict actions against the person's that are doing tax evading so that the revenue of the nation doesn't get hampered. With all these things the government can try to build a positive image of imposition of income tax in people's mind. To curb the problem of black money and tax

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evasion, digitization of all the receipts including agricultural income should be done. A proper mechanism should be developed to check the genuine agricultural income for the purpose of exemption.

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