

Comparative Study of Taxation Structure of India with BRICS Countries

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Abstract:

The economic progress of a country is directly depend upon the taxation system of the country. The BRICS participants are either developing or recently developed nations, but they are basically illustrated by their huge, rapidly-growing economy and substantial impact on provincial and universal dealings. The high rate growth of China, India, and Russia increase the importance of BRICS countries to the Global economy. On the other side, the implementation of GST in India shows altered impact on Indian economy. In this current newspaper, an effort has been made to thoroughly understand the taxation structure of India by a comparative analysis along it the following nations: Brazil, Russia, and China and South Africa (BRICS) nations. The factors like as Total Tax Rates, GDP Ratio, No of Tax Payments, Time to Comply Taxes and Ease of doing Business are calculated for comparing BRICS countries tax structures with India. In this paper, we compare Indian tax system with other BRICS countries to analyze the strengths and weaknesses.

KEYWORDS: BRICS Tax system, GDP, Comparison of tax structures.

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Introduction

“It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold” – Kalidas

The word "Tax" Originates from "Taxation" which means an estimate. In the words of Dalton, tax is defined as “*a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any legal offence* (Jaiswal, 1). For the taxpayer the meaning of tax is different from its legal interpretation or a financial burden as it contains outflow of cash but for the government, it is an important mechanism of raising revenues in which an element of sacrifice involves without deliberating any direct benefit or return to tax payers.

Tax policies play an important role on countries growth and development. For collecting the taxes from public, taxation structure is made in which laws and rules are formulated by specific individual nation (Ghughe and Katdare, 2016). In taxation system, Complex system limits the growth of country and responsible for hindering the ease of doing business. On the other side, simplified tax system has occasioned in simplifying the comfort of carrying ventures along with development and growth of that specific nation.

India is one of the most rapidly emerging economies in the world. The *One Hundred and First Amendment* of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, presented a national Goods and Services Tax in India from 1 April 2017. It is a simplified and well-structured taxation scheme, where an influential segregation has been done among the state governments', the central government, and the local bodies.

For analyzing the Indian tax structure's strength and weaknesses, we compare the Indian tax structure with other BRICS countries tax system (Ghughe, Katdare, 2016). As BRICS is an alliance of five foremost developing national markets: Brazil, Russia, India, China and South Africa. The BRICS participants are either emerging or recently developed countries, but they are renowned by their huge, rapidly-growing economies and noteworthy effect on local and universal matters (Jaiswal, 2016). Currently BRICS nations signify around 3 billion people, which is about 42% of world's entire

population of around 7.074 billion and hold about 27.3% of combined GDP of the world with China on top (US\$ 12,269 billion) followed by India (US\$ 4793 billion), Russia (US\$ 3373 billion), Brazil (US\$ 2365 billion) and South Africa (US\$ 586 billion).

Review of Literature

Alpna Yadav, (2017) in her working paper “Impact of Goods and Services Tax on Indian Economy” established that after implementation of GST Indian economy shows a major change in the taxation system which shall resolve the issue of complication of taxation system. With the application of GST, the charge of production of goods shall decrease. The GST shall provide India with a universally-acceptable taxation scheme by gripping diverse actions taken into the service sector and the manufacturing. GST shall also provide assistance to consumers and producers by delivering them a comprehensive and wide coverage of service tax set off, subsuming the several taxes and input tax credit set off. GST is expected to progress tax collection and thus, enhance India's financial growth.

Ravi. M. V., (2016) in his working paper on A comparative study of Indian tax policy with BRICS countries tax policy concluded that in BRICS countries China and Brazil is attracting more FDI by reducing their tax rates, Zero tax Policy, Tax Incentives, Subsidies, and speedup the policy implementation. If India follows the same structure then all these Tax Revenue, FDI, GDP, Employments, Investments, Exports will definitely increase which will in turn leads to Economic Development of the nation.

Ghughe and Katdare, (2016) stated that the Indian taxation system stays behind in nearly every single display, as taxation to GDP ratio, total tax percentage etc. An Analytical Study of Taxation System of India with concern to a few other nations shows that there is a strong requirement for simplifying the taxation system, as a country's financial advancement vastly relies upon the kind of tax system.

CBGA-India, (2015) established that the advancement of the taxation system of India is way too subordinate, when compared to the international standards. They specified that the nation requires to escalate its tax-GDP quotient for sufficient reserve deployment that upraised the queries on taxation

enforcement in India and also upturned queries on a quantity of taxation exclusions provided in India and listed that there is a necessity to reconsider India's taxation scheme.

Anna Voronkova, (2015) in his research BRICS association: evaluation of the countries' financial prudence, geopolitical influence, and probable growth determined that the chief motives for BRICS nations to join into this global association and to advocate the probable expansion of BRICS countries and compare the current, economic and political performance of BRICS countries. It is found out that BRICS assembly has attained fabulous evolution degrees in the past two decades and has a vast financial prospective.

Research Methodology

An impressive economy performance of BRICS countries shows the potential of high growth in the future. The taxation structure is compared by drawing comparative charts for all BRICS countries that will help to recognize the presentation of all the BRICS nations with reverence to all the key displays.

Data is collected from sources like Magazines, Research Papers published in International and National Journals, Reports published by Ministry of Commerce and Ministry of Finance, World Data Bank, Reports published by international financial organizations, Websites and Newspapers etc.

Overview of Taxation in BRICS Countries

1. Brazil:

It is the 5th largest nation on the globe, in reference to the total surface area and human population. It is one of the leading economy and largest country in South America. In Brazil, the chief directives for taxation process are delivered by centralized national constitution that forms the broad values of taxation system, the restrictions on one's right to tax, tax competency through the various stages of government and tax revenue sharing provisions. In 2016 Brazil counts 92 diverse types of taxations and the government is trying to approve another two type of taxes (a tax over big fortunes and a financial transaction tax over banking accounts). With too many taxes the legislation system of Brazil also suffers number of changes in short period.

2. Russia:

It is the world's largest country in reference to the total land area and has been ranked 9th in population. In BRICS, Russia has an important place and on other side, Russia gained the position of non-western political and economic power.

The tax legislation of Russia was based on the laws enacted in the final years of the Soviet Union. The tax system during 1992-1998 was decentralized which was not beneficial for the economy. Therefore, in 1995, Boris Yeltsin proposed to recentralize the tax system through a Tax Code, substituted the prior abundant and miscellaneous lawful acts administrating taxation, and augmented the arrangement of taxations. In beginning there are more than fifty taxes, only fourteen taxes remain currently applicable.

3. India:

It is one of the vastly emerging financial markets in the world. It is the 10th largest country in terms of GDP. From July 1, 1860, the income tax was introduced in India as a temporary measure to meet a financial emergency attendant upon the first war of independence in 1858. In 1922, the Income Tax Act was approved that combined all the previously prevailing acts. The milestone in the historical pages of the Indian income tax scheme was 1922 Act which was further replaced by the Income Tax Act, 1961, and is a comprehensive legislation. It brought changes in all aspects of income taxation, i.e. administration, procedure of assessment, and compliance to curb tax evasion. Then the Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, announced a national Goods and Services Tax in India from 1st April 2017. The GST implementation in India is dual in nature. An imposing isolation has been performed amongst the Central Government, the various State Governments along with the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is exclusively answerable for the calculation of taxes. This sector charge taxes on organizations as well as individuals for customs duties, income tax, central excise and service tax. On the other hand, the farming based income taxes are imposed by the specific State Governments. Local bodies possess the control of computing and levying taxes on assets and other convenient services like water supply, drainage and several others.

4. China:

China is a communist country in East Asia and is also the world’s most highly populated nation. Taxation is an essential component of the macroeconomic strategy of China and so bears a huge influence on socio-economic situations of China. Soon after the Communist Party formed its Government in 1949, China started a socialist restoration of the economy.

From the year 1956 to 1978, a firm Soviet-type command economy was brought into practice and this led almost to the disappearance of the private sector. In 1978, a fresh financial strategy was created and it familiarized a two-track system- domestic track and foreign track. From the developments during 1994, China has a well-organized tax scheme. There are presently 26 categories of taxations in China, which are additionally classified into 8 classes as per their nature.

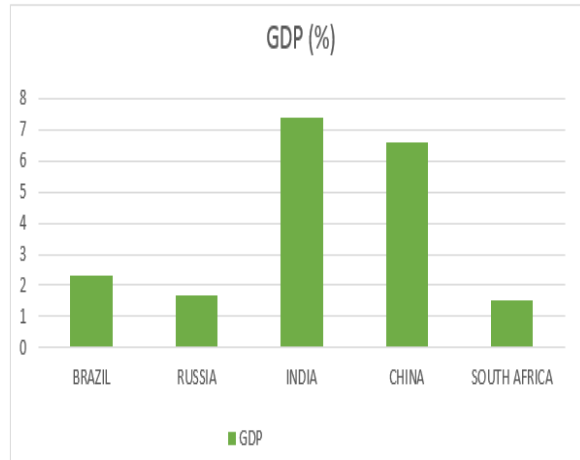
5. South Africa:

South Africa has an advanced income tax scheme that is based on the fact that the affluent should fund a bigger fraction towards being supportive to the Nation than the needy. As per the South Africa law, all the owners need to enlist all the workers as the tax-payers irrespective of their tax accountability. The tax system of South Africa is taxed at two levels which is the central government and the local government. Taxation System in South Africa was announced in 1914 with an overview of the Income Tax Act No 28, an act that had its roots in the New South Wales Act of 1895. The act has undergone a number of modifications with the act currently enforced is the Income Tax Act No 58 of 1962 which comprises the provisions for four diverse kinds of income taxes, they are Donations tax, Normal tax, Secondary tax on companies concealing the tax.

South African revenue services (SARS) performs on the behalf of state government for the gathering of taxes, central government collects, Corporate Tax, Income tax, Vat as well as fuel duty however the local management body collects public charges and reserves from central government.

Data analysis and Interpretation

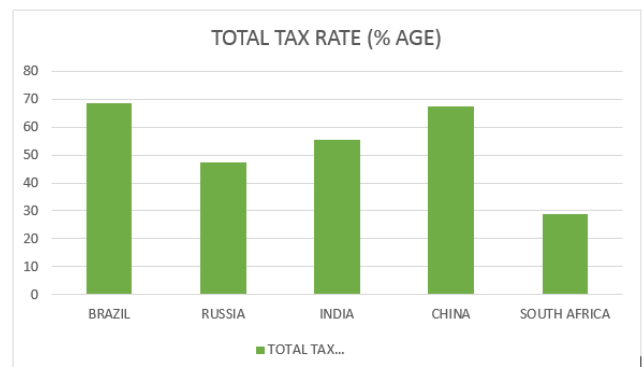
1. Gross Domestic Product (GDP)



Source: IMF Data Mapper

GDP is a one of the strongest measures to check the financial stability of a nation. It is the sum-total production of a nation and thus includes all consumptions of goods and services manufactured by a nation and services used by firms, individuals, foreigners and various governing entities. The Gross Domestic Product in a nation as India, is undergoing a rapid growth rates in the current years. The GDP of India is high among all BRICS country which shows a positive side of economic growth.

2. Total Tax Rate

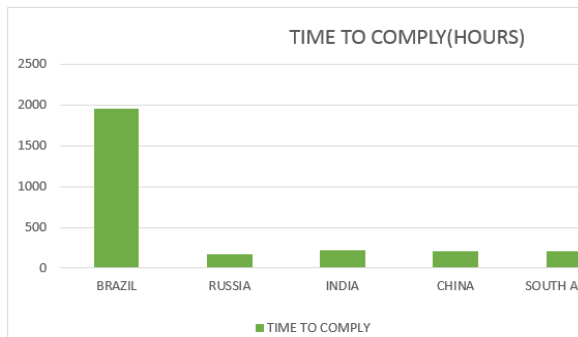


Source: PWC Paying Ranking 2018

Total tax rate processes the quantity of taxes and the compulsory assistances billed by trades after accounting for permissible exemptions and deductions as a part of monetary benefits.

The complete tax rate of India is relatively extraordinary, if we analyze it in context with other BRICS nations. On the other side, China and Brazil surpasses India's sum-total tax rate midst the BRICS countries. These raise severe concerns to overall Indian Tax Policy and Administration.

3. Time to Comply

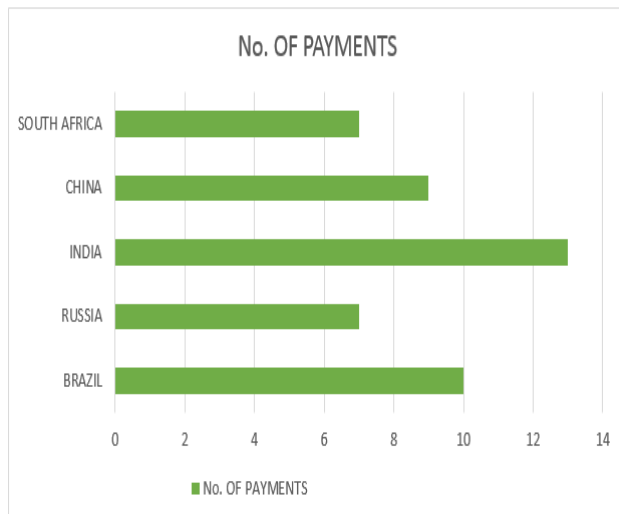


Source: PWC Paying Ranking 2018

Time to comply is the time taken or consumed to formulate and pay taxes in hours per year, it takes to formulate, organize, and pay (or withhold). Contributions and taxes take into consideration the corporate income tax or profit, labor taxes and social contributions performed by the employer are: property transfer taxes, property taxes, capital gains tax, dividend tax, waste collection taxes, vehicle and road taxes, financial transactions tax, and any other minor taxes or fees counting payroll taxes and social security contributions. The positioning of financial hierarchy on the comfort of forfeiting taxes is recognized by cataloging their distance to boundary line scores for charging taxes

The total time taken for tax agreements in India is also great, when associated to other BRICS nations, other than Brazil. India needs to slow down its tax submission time at the heights of developed nations, in an attempt to bring forth additional productions in India.

4. No. of Payments



Source: PWC Paying Ranking 2018

Tax expenditures by industries are the sum-total of taxes charged by industries, including electronic filing. The tax is counted as been charged once annually, even though the payments are quite often.

India stays behind a lot, when equated against this indicator. India has a vast quantity of tax payments i.e. 13; whereas all other nations designated in the model are quite forward of time, with moderately lesser number of tax payments.

India needs to cut short a certain amount of taxes or club them. Current activities to get GST to substitute maximum of the secondary taxes is one of the optimistic phase towards clubbing of taxes. Decrease in the number of payments of taxes shall also decrease time for agreements of the taxes.

5. Ease of doing Business

Country	Rank Secured in Ease of doing Business Among 188 Countries
Brazil	125
Russia	35
India	100
China	78
South Africa	82

Source: World Data Bank

Taxation has a larger influence on carrying out a trade. Highly the tax policy shortened, greater is the comfort of carrying out the trade. Maximum the tax policy complex, lower is its ease of carrying a trade.

This effect can be seen on to the table listed above. India levels 100 in comfort of carrying out a trade amongst 188 nations. The other nations except Brazil in the BRICS countries are quite ahead of India in these ranks.

Conclusion

After matching India with the list of BRICS nations on these 5 standards, it is noticed that Indian taxation system stays behind on some pointer. But

impression of GST on Indian economy is quite appreciative. Which shows direct impact on GDP. An identical and practical taxation scheme in India would result to minor distractions in the economical market and more effective circulation of capitals within the production. All BRICS members have their unique strength and characteristics. The Indian economy is positioned on a high growth trajectory, with drastic reforms such as demonetization and Goods and Services Tax reform (GST) considering standard growth. The growth outlook in South Africa remains unresponsive. The Brazilian economy is leaving recession strongly on a disinflationary trend, with fiscal outlook and election biggest uncertainty



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