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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 members are all developing or newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs. 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 the present paper, an attempt has been made to study the taxation structure of India by comparing it with other Brazil, Russia, China and South Africa (BRICS) countries. The parameters like GDP Ratio, Total Tax Rates, 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 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 rules and laws are set up by particular individual country (Ghuge 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 resulted in simplifying the ease of doing business as well as growth and development of that particular country.

India is one of the largest developing 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, introduced a national Goods and Services Tax in India from 1 April 2017. It is a well-structured and simplified taxation system where an authoritative isolation has been done among the central government, state governments as well as local bodies.

For analyze the Indian tax structure's strength and weaknesses, we compare the Indian tax structure with other BRICS countries tax system (Ghuge, Katdare, 2016). As BRICS is an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. The BRICS members are all developing or newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs (Jaiswal, 2016). At present, BRICS countries represent approximately 3 billion people, which is around 42% of world's total population of about 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 concluded that after implementation of GST Indian economy shows a major change in the taxation system which will solve the problem of complexity of tax system By the implementation of GST cost of manufacturing of goods will reduce. The GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set off. Service tax set off and subsuming the several taxes. GST is likely to improve tax collection and Boost India's economic development.

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.

Ghuge and Katdare, (2016) stated that Indian tax structure lags behind in almost every indicator like tax to GDP ratio, total tax percentage etc. A Comparative Study of Tax Structure of India with respect to some other countries shows that there is a strong requirement for simplifying the taxation system. As countries economic progress is hugely depend upon the type of taxation system.

CBGA-India, (2015) concluded that the progressivity of the tax structure in India is far below the international levels. They stated that the country needs to increase its tax-GDP ratio for adequate resource mobilization which raised questions on tax administration in India and also raised questions on number of tax exemptions given in India and stated that there is a need to reassess India's tax system.

Anna Voronkova, (2015) in his research BRICS organization: comparison of the countries' economies and geopolitical influence, potential development concluded that the main reasons for BRICS countries to join into this international organization and to suggest the potential development of BRICS countries and compare the current, economic and political performance of BRICS countries. It found out that BRICS group has achieved tremendous growth rates during the past two decades and has enormous economic potential.

Research Methodology

The 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 understand the performance of all BRICS countries with respect to all key indicators.

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 country in the world in terms of area as well as in population. It is one of the leading economy and largest country in South America. In Brazil, the main directives for taxation are provided by federal constitution which establishes the general principles of taxation, the limitations on the power to tax, tax competence across levels of government as well as tax revenue sharing provisions. In 2016 Brazil counts 92 different kinds of taxes 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 terms of land area and has rank 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 last years of the Soviet Union. The tax system during 1992-1998 was decentralized which was not beneficial for the economy. Therefore, in 1995, Boris Yeltin proposed to recentralize the tax system through a Tax Code, replaced the previous numerous and diverse legal acts governing taxation, and optimized the structure of taxes. In beginning there are more than fifty taxes, only fourteen taxes remain currently applicable.

3. India:

It is one of the largest developing economies 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 passed that combined all the previous acts. The landmark in the history of Indian income tax system 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 One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 April 2017. The GST implementation in India is Dual in nature. An imposing isolation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others.

4. China:

China, a communist nation in East Asia, is the world's most populated country. Tax is an important element of the macroeconomic policy of china and has a high impact on socio-economic conditions in china. After the Communist Party formed government in 1949, China initiated a socialist reconstruction of the economy.

From 1956 to 1978, a strict Soviet-type command economy was practiced and the private sector almost vanished. In 1978, a new economic policy was framed which introduced a two track system- foreign track and domestic track. From the reforms in 1994, China has a well-structured taxation system. There are currently 26 types of taxes in china which are further divided into 8 categories according to their nature.

5. South Africa:

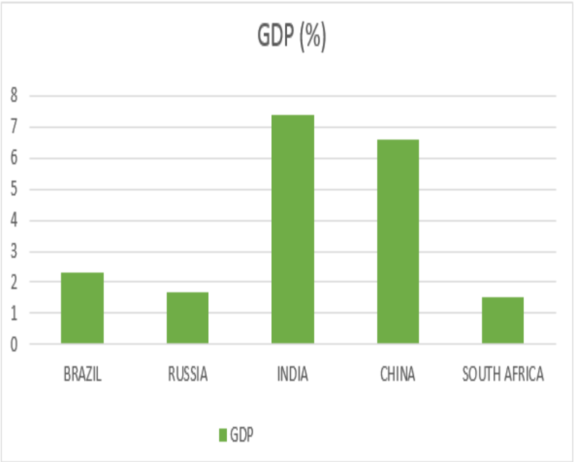
South Africa has a progressive income taxation system which is based on the premise that the wealthy should contribute a greater proportion towards supporting the

State than the poor. According to South Africa law all employers have to register all employees as taxpayers regardless of their tax liability. The tax system of South Africa taxed at two levels which is central government and local government. Tax in South Africa was introduced in 1914 with the introduction of the Income Tax Act No 28, an act that had its origins in the New South Wales Act of 1895. The act has gone through numerous amendments with the act presently in force is the Income Tax Act No 58 of 1962 which contains provisions for four different types of income tax which are Normal tax, Donations tax, Secondary tax on companies and withholding tax.

South African revenue services (SARS) acts on behalf of state government for the collection of taxes, central government collects Income tax, Corporate Tax, Vat and fuel duty whereas local government collect municipal rates and funds from central government.

Data analysis and Interpretation

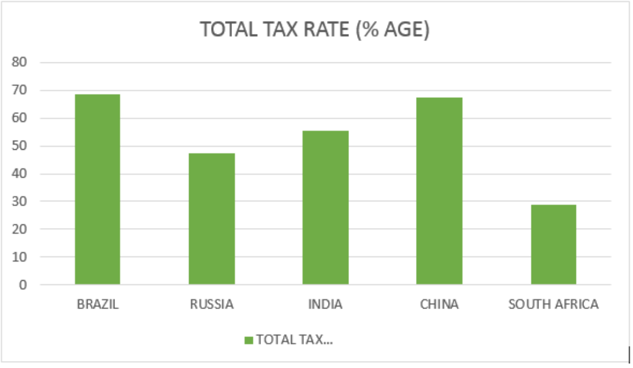
1. Gross Domestic Product (GDP)



Source: IMF Data Mapper

GDP is a very strong measure to check the economic health of a country. It is the sum of total production of a country and as such comprises all purchases of goods and services produced by a country and services used by individuals, firms, foreigners and the governing bodies. The Gross Domestic Product in the country like India is experiencing a faster rate of growth in the recent years. The GDP of India is high among all BRICS country which shows a positive side of economic growth.

2. Total Tax Rate

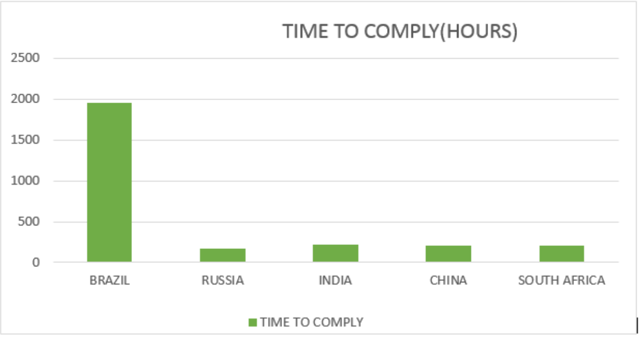


Source: PWC Paying Ranking 2018

Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits.

The total tax rate of India is quite high if we compare with other BRICS Countries. On the other side China and Brazil exceeds India's total tax rate amongst the BRICS countries. These raise severe concerns to overall Indian Tax Policy and Administration**.**

3. Time to Comply

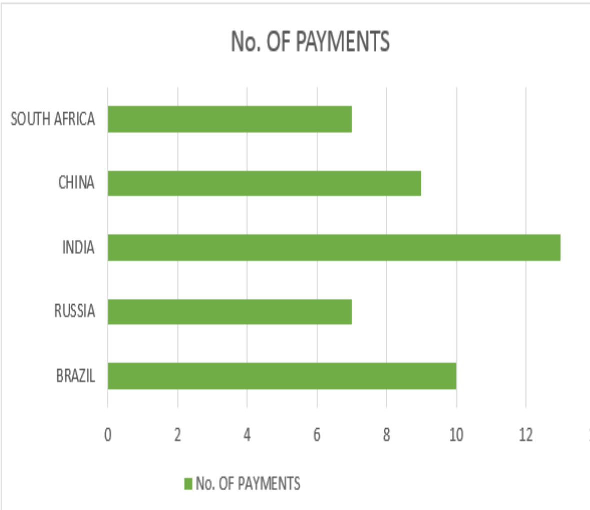


Source: PWC Paying Ranking 2018

Time to comply is the time to prepare and pay taxes in hours per year, it takes to prepare, file, and pay (or withhold). Taxes and contributions measure the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees including payroll taxes and social security contributions. The ranking of economies on the ease of paying taxes is determined by sorting their distance to frontier scores for paying taxes

Total time taken for tax compliances in India is also high as compared to other BRICS countries except Brazil. India needs to reduce down its tax compliance time at the levels of developed countries in order to attract more businesses in India.

4. No. of Payments



Source: PWC Paying Ranking 2018

Tax payments by businesses are the total number of taxes paid by businesses, including electronic filing. The tax is counted as paid once a year even if payments are more frequent.

India lags behind very much when compared against this indicator. India has a huge number of tax payments i.e 13. Whereas all other countries selected in the sample are quite ahead with relatively very less no of tax payments.

India needs to cut down on certain number of taxes or club them. Recent happenings to bring GST to replace most of the indirect taxes is one of the positive step towards clubbing of taxes. Reduction in no of payments of taxes will also reduce time for compliances 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

Tax has a greater impact on doing business. More is the tax policy simplified, higher is the ease of doing Business. More is the tax policy complex, lower is the ease of doing business.

This above effect can be seen here. India ranks 100 in ease of doing business in India amongst 188 countries. The other countries except Brazil in the BRICS countries are very ahead of India in this rankings.

Conclusion

After comparing India with the other BRICS countries on this 5 criteria, it is seen that Indian tax structure lags behind on some indicator. But impression of GST on Indian economy is quite appreciative. Which shows direct impact on GDP. A uniform and rational taxation system in India would lead to lesser disruptions in the market economy and more efficient distribution of resources within the industry. 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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