

A COMPARATIVE STUDY OF INDIAN TAX POLICIES WITH GLOBAL TAX SYSTEMS

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Abstract:

This study explores the intricacies of Indian tax policies in relation to various global tax systems, providing a comprehensive analysis of similarities, differences, and the underlying motivations behind these frameworks. Tax policies are pivotal for any nation, influencing revenue generation, economic growth, and social equity. India, with its unique economic landscape and diverse population, has developed a complex tax structure that combines direct and indirect taxes, reflecting its developmental goals and regulatory challenges. The research begins with a historical overview of Indian tax policies, highlighting key reforms such as the liberalization in the 1990s and the introduction of the Goods and Services Tax (GST) in 2017. These reforms aim to simplify the tax regime, enhance compliance, and broaden the tax base, positioning India as an attractive destination for investment. A comparative analysis is conducted with major global tax systems, particularly those of the United States, European Union countries, and emerging economies in Asia. The study delves into direct and indirect taxation, compliance mechanisms, and international agreements such as Double Taxation Avoidance Agreements (DTAAs). It examines the effectiveness of India's tax incentives, transfer pricing regulations, and digital taxation frameworks in light of global best practices.

The findings indicate that while India has made significant strides in aligning its tax policies with international norms, challenges remain in areas such as compliance, the informal economy, and administrative efficiency. The study concludes by offering insights into potential reforms that could enhance India's tax system, emphasizing the need for a balanced approach that fosters economic growth while ensuring fairness and equity. Overall, this comparative study serves as a valuable resource for policymakers, researchers, and stakeholders seeking to understand and improve India's tax landscape in a global context.

Keywords: Indian Tax, Policies, Global Tax Systems.

INTRODUCTION:

Tax policy is a critical component of a nation's economic framework, serving as a primary means for governments to generate revenue, redistribute wealth, and influence economic behavior. At its core, tax policy encompasses the laws and regulations governing how taxes are levied on individuals, corporations, and other entities, as well as the mechanisms for collecting these taxes. The effectiveness of a tax policy can significantly impact a country's economic growth, social equity, and overall governance. In the context of globalization, tax policies have become increasingly important as nations strive to attract foreign investment, enhance competitiveness, and address challenges posed by tax evasion

and avoidance. Countries often find themselves in competition to create favorable tax environments that can stimulate economic activities, prompting a careful balancing act between revenue generation and the need to maintain an attractive investment climate. India's tax policy, characterized by its blend of direct and indirect taxation, has evolved significantly over the years, particularly following economic liberalization in the early 1990s and the implementation of the Goods and Services Tax (GST) in 2017. The ongoing reforms aim to simplify the tax structure, improve compliance, and broaden the tax base while ensuring social welfare objectives are met. As such, a comparative study of Indian tax policies against global tax systems reveals both challenges and opportunities that can inform future reforms and strategies for sustainable economic development.

OBJECTIVE OF THE STUDY:

This study explores the intricacies of Indian tax policies in relation to various global tax systems.

RESEARCH METHODOLOGY:

This study is based on secondary sources of data such as articles, books, journals, research papers, websites and other sources.

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Tax policies serve as a fundamental aspect of any nation's economic structure, impacting both revenue generation and redistribution of resources. Taxation forms the backbone of governmental finance, ensuring that public services, infrastructure, and welfare programs are adequately funded. Different tax systems worldwide reflect the political, economic, and cultural priorities of each country, with variations across developed and developing nations. In recent years, globalization and economic interdependence have amplified the relevance of tax policies as nations seek to attract investments, prevent tax evasion, and manage tax competition.

India's tax structure is particularly unique given its developing economy status combined with ambitious fiscal goals, emerging from a background of colonial tax systems and adapting to the needs of a rapidly transforming economic landscape. Comparatively, India's policies stand out for their balancing act between attracting foreign investments, ensuring fiscal discipline, and addressing domestic welfare concerns. This comparative study of Indian tax policies with global systems, such as those in the United States, European Union countries, China, and other Asian economies, will provide insights into similarities, distinctions, and potential areas for improvement in the Indian system.

Evolution of Indian Tax Policies

India's tax policies have evolved substantially from the pre-independence period to today. The primary objective post-independence was to create a tax structure that would support

national growth and industrialization. India moved from a system of high corporate and income taxes aimed at wealth redistribution to a more moderated tax regime. The significant reforms in 1991, which were part of economic liberalization, focused on reducing tax rates, broadening the tax base, and streamlining tax procedures. In 2017, the implementation of the Goods and Services Tax (GST) was another landmark reform aimed at simplifying indirect taxation. The GST consolidated multiple indirect taxes, reducing the complexity of the tax code and addressing the cascading effects of various state and central taxes. Compared to other global systems, India's GST is ambitious but complex, primarily due to India's federal structure and the need for consensus between the central and state governments.

Direct Taxation in India Compared to Global Practices

Direct taxes in India, which include personal income tax and corporate tax, form a significant portion of the revenue. India's income tax system is progressive, meaning tax rates increase with higher income levels. This is similar to many developed nations, including the United States and European Union countries. However, the tax rates in India are relatively lower than in many high-income countries, as it prioritizes promoting disposable income and economic growth.

Corporate taxes in India have seen multiple reforms aimed at boosting business investments. The current corporate tax rate in India is moderate, especially after the reduction in 2019, where the government offered lower rates for new manufacturing companies to foster domestic production under the "Make in India" initiative. Comparatively, countries like Ireland and Singapore have lower corporate tax rates, attracting multinational corporations and setting a competitive benchmark. However, developed countries like the United States and Japan tend to have higher rates, although they provide various incentives and deductions that effectively reduce the tax burden on corporations.

Indirect Taxation: GST and International Comparisons

The Goods and Services Tax (GST) in India represents a significant shift towards a unified tax system. Its structure includes multiple tax slabs, ranging from 0% for essential goods to higher rates for luxury items. While this multi-slab approach aims to cater to different income levels within the population, it has drawn comparisons with simpler systems like the single-rate GST in New Zealand. The European Union countries have Value-Added Taxes (VAT) instead of GST, but the principles are similar, focusing on consumption rather than income.

The Indian GST system's multiple rate slabs add complexity, whereas countries with simpler structures like Singapore benefit from administrative efficiency. Some experts argue that India's multi-slab GST could evolve towards a simpler model over time, potentially lowering compliance costs and improving revenue collection efficiency.

Tax Compliance and Enforcement: India Versus Global Standards

Tax compliance in India is marked by efforts to reduce tax evasion and widen the tax base. Initiatives such as the digitalization of tax filings, introduction of e-way bills for tracking

goods movement, and the linking of bank accounts with tax identification numbers have significantly improved transparency and compliance. However, India's informal economy remains a challenge, with a substantial portion of economic activities still outside the formal tax net.

Globally, countries have adopted various measures to improve tax compliance. The United States uses a sophisticated system of audits, reporting, and penalties, leveraging extensive financial data to minimize tax evasion. Countries in the European Union have integrated tax systems to facilitate compliance across borders. A critical contrast lies in the enforcement resources and the digital infrastructure available in developed nations, which streamline compliance and enforcement processes. India's compliance framework has increasingly leveraged technology, with e-filing systems, digital payments, and data analytics for fraud detection, but more progress is needed to match the efficiency seen in advanced economies. Enhanced digital infrastructure could further reduce tax evasion and increase compliance among small businesses and individuals in India.

International Taxation and Double Taxation Avoidance Agreements (DTAAs)

India, like many other nations, has established Double Taxation Avoidance Agreements (DTAAs) to prevent the same income from being taxed twice in two countries. India's DTAAs cover a broad range of countries, helping to encourage foreign investments by reducing tax barriers. By comparison, the United States has extensive tax treaties and applies a foreign tax credit system that allows its citizens to offset foreign taxes against U.S. taxes.

However, India's treaties sometimes face challenges due to the global crackdown on tax havens and aggressive tax planning by multinational corporations. To counteract this, India has introduced anti-abuse rules within its treaties and adopted the Multilateral Instrument (MLI) developed by the OECD to update DTAAs and prevent base erosion and profit shifting (BEPS). These efforts align India with global trends to curb tax avoidance, although the enforcement of these rules can be challenging due to differences in treaty interpretations and administrative capacities.

Transfer Pricing and Anti-Avoidance Regulations

Transfer pricing regulations in India aim to ensure that international transactions between associated enterprises are conducted at arm's length, meaning that prices for intra-group transactions should be comparable to those between unrelated parties. India's approach to transfer pricing aligns with the OECD guidelines, which are widely adopted globally.

Compared to developed countries, India's transfer pricing regulations are strict, with high scrutiny and documentation requirements. This approach reflects India's concerns about revenue losses due to tax avoidance strategies by multinational companies. Countries like the United States also enforce strict transfer pricing rules but often provide more flexibility through advance pricing agreements (APAs), which allow companies to settle transfer pricing issues in advance. India has introduced APAs as well, but the process remains relatively

cumbersome. Enhancing this system could provide greater predictability and reduce litigation for businesses operating in India.

Tax Incentives and Exemptions

Tax incentives in India are designed to attract foreign investments, promote specific industries, and support economic development. The “Special Economic Zone” (SEZ) incentives provide tax breaks to companies that set up operations within these designated zones, mirroring similar initiatives in countries like China and Malaysia, which have used tax-free zones to bolster exports and industrialization.

In comparison, developed nations such as the United States offer research and development (R&D) tax credits, deductions for renewable energy investments, and credits for investments in economically disadvantaged areas. India has similar provisions, although they are often more limited in scope. The gradual phasing out of many exemptions under corporate tax reforms reflects a global trend towards reducing complexity and creating a more uniform tax rate for all industries. By continuing to streamline these incentives and focusing on specific growth sectors, India could foster a more competitive environment for investment.

Digital Taxation in India and Global Comparisons

With the digital economy expanding rapidly, India has introduced a digital services tax, known as the “Equalization Levy,” targeting foreign digital companies that generate revenue from Indian users. This tax is part of India’s response to the challenges posed by the digital economy, where traditional tax rules based on physical presence are less applicable. Similar measures have been taken in the European Union, the United Kingdom, and several other countries, prompting international discussions at the OECD to establish a global framework for digital taxation.

The Indian Equalization Levy highlights the challenges of taxing global tech companies and addresses revenue loss from digital transactions. While India’s approach is similar to that of other countries, the ongoing negotiations for a unified approach through the OECD’s Pillar One and Pillar Two proposals could reshape digital taxation worldwide. India’s participation in these discussions is critical as it balances national revenue interests with the need for an equitable global framework.

Tax Reforms and Future Directions

Indian tax policies are undergoing continuous reform to simplify procedures, enhance transparency, and increase revenue collection. Recent reforms, including faceless assessments, simplified compliance, and reductions in corporate tax rates, reflect efforts to modernize the tax system. However, challenges remain, such as broadening the tax base, reducing compliance costs for small businesses, and addressing issues within the GST framework.

Looking globally, tax systems are increasingly focusing on addressing economic inequality, environmental concerns, and digital transformation. The European Union has introduced Green Taxes to incentivize environmentally friendly practices, and the United States has been considering wealth taxes to reduce inequality. India could explore similar mechanisms to align its tax policies with global sustainability goals. Additionally, further simplification of the tax structure, particularly the GST, could enhance India's competitiveness and streamline business operations.

CONCLUSION:

This study highlights both the progress made and the challenges that remain. India's tax structure, characterized by significant reforms such as the introduction of the Goods and Services Tax (GST) and ongoing efforts to enhance compliance, reflects its ambition to create a more efficient and equitable tax regime. While the country has made notable strides in aligning its policies with international norms, issues such as a large informal economy, complex compliance requirements, and the need for streamlined administrative processes continue to hinder optimal revenue generation. The analysis reveals that India's direct and indirect tax frameworks can benefit from adopting best practices observed in other countries, particularly regarding digital taxation, transfer pricing regulations, and tax incentives. Moreover, further simplification of the tax code and enhanced use of technology can improve compliance and transparency. As India navigates its tax reform journey, it is crucial to balance economic growth objectives with social equity. By embracing innovative approaches and learning from global experiences, India can foster a robust tax system that not only supports sustainable development but also enhances its competitiveness in the global economy.

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