

ECONOMICS

PROJECT

Class 12

Indirect impact of GST on Income tax

Submitted By:

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..... (Name of the student)

CERTIFICATE

This is to certify that (Name of the student)..... of class 12 has successfully completed the Economics Project as per the guidelines of class XII Board examination conducted by C.B.S.E.

It is further certifying that this project is the individual and bonafide work of the candidate.

Teacher's Sign:

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EXPLANATION OF THE **CONCEPT**

WHICH IS THE MAJOR SOURCE OF REVENUE OF GOVERNMENT?

The major source of revenue for government in India is revenue from Tax collected by government.

WHY DOES GOVERNMENT COLLECT TAXES?

OBJECTIVES of collecting taxes:

a. Raising Revenue

Government performs several welfare functions which involves substantial amount of expenditure.

b. Encouraging Domestic industries

Taxes imposed tends to reduce import of goods which promotes domestic industries.

c. Stimulating Industries

Tax incentives provided by government stimulates investment in certain sectors.

HOW MANY TYPES OF TAXES ARE COLLECTED BY GOVERNMENT?

- There are **two types of taxes** in India which are collected by government:
 - a. Direct Tax (those which are levied directly on the individuals)
 - b. Indirect Tax (those whose burden can be passed on to consumers by the firms)
- **Examples:**
 - Direct tax: Income tax, Corporation tax etc.
 - Indirect tax: Sales tax, Excise duty etc.

WHAT ARE THE DRAWBACKS OF DIRECT TAXES IMPOSED BY GOVERNMENT?

DRAWBACKS OF DIRECT TAXES

There are certain drawbacks of direct taxes collected by government, some of them are listed below:

a. REDUCE PRODUCTIVE EFFORTS

Corruption, Multilevel taxes, No transparency in tax structure demotivates people to contribute in productive efforts to develop economy.

b. REDUCE INTEREST IN SAVING AND INVESTMENT

High taxes reduce power to purchase of individuals which directly effects their saving and investment.

c. ADVERSE EFFECT ON CORPORATE INVESTMENT

Imposition of corporate tax reduces funds that could be invested by corporates for their growth.

MEANING AND DEFINITIONS

ITEMS	MEANING
GST (Goods and Services Tax)	Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments.
Direct Tax	A tax, such as income tax, which is levied on the income or profits of the person who pays it, rather than on goods or services.
Indirect Tax	A tax levied on goods and services rather than on income or profits.
Income Tax	Income tax is a tax levied by government on personal income of a person.

WHAT IS GST?

- The Goods and services tax is a uniform indirect tax levied on all goods and services produced in the country and all goods and services imported from abroad.
- GST will be a single uniform indirect tax which will treat India as one market.

Benefits of GST-

The GST will enable a benefit to the economy in terms of:

- 1 A fall in product prices
- 2 A single price of a product across the country
- 3 Lower working capital for companies
- 4 A more simplified tax system
- 5 It would facilitate more seamless movement across the nation and will reduce the overall transaction cost of running the business
- 6 It will also reduce the compliance of multiple tax rules and obligations.

APPLICATION OF CONCEPT

What is the nature of Income tax?

Income tax is a direct tax which is imposed directly on a person whose income is taxed.

How many people in India as compared to Developed Country pays Income tax in India?

Number of tax payers in India vs US

- Only about 1 percent of India's population paid tax on their earnings in the year 2013, according to the country's income tax data, published for the first time in 16 years.
- The report further states that a total of 28.7 million individuals filed income tax returns, of which 16.2 million did not pay any tax,
- Leaving only about 12.5 million tax-paying individuals, which is just about 1 percent of the 1.23 billion population of India in the year 2013.
- **In the US, about 45% of the population pays taxes**, as the total population is about 307 million, and the number of returns filed for individual income tax is about 144 million. That's a huge difference between India and the US.

Which policy is implemented by Government of India to increase this number of taxpayers?

- One of the latest policy implemented by Modi government to increase the number of tax payers is well known to every one which is **“Demonetization”**
- Demonetization has affected number of tax payers to a great extent.
- The government added 9.1 million new taxpayers in 2016-17, an 80% increase over the typical yearly rise, highlighting the impact of India’s November demonetization of high-value currencies.

Is there any other step taken by government of India to take number of tax payers to a new height?

- Recent achievement of Government of India says it all, Implementation of GST will have a great impact on increasing the number of tax payers in India.

Does implementation of GST affects Income Tax?

- **Yes**, implementation of GST will affect Income tax to great extent.
- As GST is an indirect tax it will not have a direct effect on Income tax. GST will affect income tax in an indirect manner.

How GST provides solution to drawbacks of Direct tax (Income tax)?

S. NO	DRAWBACKS OF DIRECT TAX	SOLUTION BY GST
1	Reduce productive efforts	Less corruption, more transparency and good compliance under GST regime will promote productive effort in economy.
2	Reduce interest in saving and investment	Reduced GST rates on various commodities used by common man in his daily life will increase chances of saving and investment.
3	Adverse effect on corporate investment	GST will increase investment by increase in FDI and by building scope of capital formation in economy.

What all arrangements and by whom are being made regarding Income tax after implementation of GST?

- With the implementation of GST, businesses of entire nation is working to change their infrastructure.
- On the other hand Income tax authorities are also making themselves ready to make a hold on wrong doers whose books of accounts will show clear attempt of discrepancies in comparison to their GST return.

Which is the area of concern in relation to GST and Income tax?

- It has been noticed at times that people manipulate the value of stock in their VAT return in comparison to their income tax return, sometimes this value is highly inflated to present high profits i.e. wrong financial position to public and banks to raise funds for their business, while other may deflate this value to curb their tax liability.
- All such acts of businesses will be clutched in GST regime.

What will be the source of information for GST authorities to gather data of wrongdoers?

Information Sharing Agreement

It is expected that GST Council will sign an information sharing Memorandum of Understanding (MoU) with CBDT to increase transparency in transactions of tax payers.

What would be the implication of Memorandum of Understanding i.e. Information sharing Agreement to be signed between GSTN (Goods and Services Tax Network) and CBDT (Central Board of Direct Taxes)?

- A major implication of this information sharing would be that the tax evaders who window dress their books at the year end to lessen their tax liability will find it harder to do so.
- Such actions were possible before as the Income Tax Department did not have any access to the data which is filed under the state VAT laws.
- However, under the new regime, GSTN will be the single repository to all these transactions and the Income Tax Department will have a clear picture of the total sales and purchases, and eventually the overall profitability, of every business.

FINDINGS AND SUGGESTIONS

How GST regime will put wrongdoers in trouble?

Under GST law all sale invoices will be uploaded on GSTN which will help authorities to get more accurate view of value of sales being reported.

Industry trackers say that since the GST data will capture the tax paid by all the companies, it could also be compared with the income tax data of the owners, promoters or beneficiaries of the companies.

In our Opinion

The government has been working hard to curb the parallel economy and eventual tax evasion which had been prevalent in India. Thanks to demonetization we have more businesses getting aligned to mainstream economy and this will further get boosted by the introduction of Goods and Services Tax regime.

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