Learning from Tax Simplification: What India Can Adopt from Global Trends

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In 1991, India witnessed its most breakthrough moment in the history of economic reforms also known as '**The 1991 Economic Reform**'. These reforms were initiated by the then Finance Minister Dr. Manmohan Singh, under the leadership of Prime Minister P.V. Narasimha Rao. The key aspects of these reforms included Liberalization, Privatization, and Globalization (LPG) reforms. The restructuring of tax systems, such as service tax, occurred as a part of economic reforms. In 2005, VAT (Value Addition Tax) was introduced to abolish the tax cascading (tax-on-tax) effect caused by Sales Tax. The economy system became more streamlined when GST (Goods and Service Tax) was implemented in 2017. GST replaced multiple indirect taxes like VAT, excise, service tax, CST, etc., with a single tax, ensuring uniformity in the taxation system. GST is a comprehensive and destination-based indirect tax. Infosys has developed the GST Portal, which has eased the filing of GST returns ahead of due dates. The government of India also introduced E-way bills on the GST portal. E-way bills are electronic documents required to move goods worth above ₹50,000 in India.

The finance minister of India presented "The Union Budget 2024," which primarily aims to simplify the complex tax slabs. Indian taxpayers, especially those hailing from rural areas, have little knowledge about tax deductions, exemptions, and refunds, which hinders the overall tax filing process and ultimately can lead to failure in savings. According to recent data provided by Govt. of India, "*The Income-tax Department has recorded a surge in the filing of Income-tax Returns (ITRs), resulting in a new record of 8.18 crore ITRs for 2023-2024 filed as against 7.51 crore ITRs filed upto 31.12.2022. This is 9% more than the total ITRs filed for A.Y. 2022-23. In the financial year 2023-24, less than 6% of India's population, which stands at around 1.4 billion, filed income tax returns (ITRs)".* This translates to roughly 8.2 crore taxpayers out of the total population. Most of the population does not fall within the taxable income bracket, with a significant portion of the country's citizens either earning below the tax threshold or being part of the informal economy.

India, one of the most populated countries, still has a smaller tax base, leading to lesser revenue generation. Different states have different capacities to collect taxes which causes uneven tax revenue across the country. Many people use illegal methods to hide their income and reduce tax burden. There are delays in tax refunds, and the cost of complying with tax regulations, including hiring experts and filing returns, can be expensive for businesses and individuals. The issues related to underreporting of income can cause inefficiency in overall tax collection.

Tax Evasion, Money Laundering, and their Prevention Acts in India:

'Hawala' refers to South Asia & Middle East's informal money exchange system. It is operated outside the formal banking system. Hawala is a system of transferring funds between countries or regions, relying on a network of trust and personal relationships. In this system, the money moves through a series of intermediaries without physical transfer. It enables the operation of illicit, quick, and discreet cross-border funds transactions, providing fertile ground for money laundering. Many shell companies involved in money laundering or tax evasion have foreign ties or offshore accounts, complicating investigations due to varying international laws. Besides India having some international agreements, cooperation can be slow and complex. According to Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act of 2015, Indians with foreign assets must disclose them in their tax returns, and failure to do so attracts severe penalties. The Confiscation and prosecution under the Prevention of Money Laundering Act (PMLA) and Benami Transactions (Prohibition) Act often involve lengthy legal proceedings. Courts face backlogs, and judicial delays mean that even if assets are provisionally attached, final confiscation can take years and as a result, criminals get ample time to move their assets. The Income Tax Department of India (ITD) has implemented data analytics to track tax compliance. The Tax Information Network (TIN) and the introduction of measures to analyze high-value transactions have been introduced to improve compliance rates. TIN is a current system for the collection, processing, monitoring, and accounting of direct taxes using information technology.

The Global Trends :

Countries across the globe have varying taxation systems, some countries are personal tax-free with no VAT system, like the UAE, the Bahamas, etc. Some enjoy low-tax systems with insurance benefits, like Singapore, UAE, Switzerland, etc. A few are High-Tax and high-transparency, like Sweden, Norway, Denmark, etc.

The country **Singapore** practices a single-tier corporate tax system, which means businesses pay CIT (corporate income tax) only on chargeable income (profits), and all dividends are exempt from further taxation. The corporate tax is **imposed at a flat rate of 17%**. In the **United States**, the tax system uses **civil penalties** to incentivize citizens to report their income accurately and pay their tax obligations. The most common measure involves applying penalties and interest to the tax liability for non-compliance. These penalties apply a percentage fee based on failure to timely pay a tax or file a return. The penalties are triggered on the day the return should have been filed or paid. The penalties grow month over month until reaching the maximum penalty amount [1]. Also, a significant portion of India's economy operates behind the walls of tax authorities in the informal sector. Offering incentives formalization as the USA, such as lower taxes for SMEs, or providing easier access to credit and government programs, could encourage informal businesses to register, expanding the tax base.

[1] Odom,Davis&Hobson

Aspect	USA Tax System	India Tax System
Income Tax Basis	Worldwide income (US citizens & residents pay tax on global income, even if earned abroad)	Resident basis (only Indian residents are taxed on global income; non-residents are taxed on Indian income)
Filing Deadline	April 15 (with possible extension to October 15)	July 31 for individuals (extensions rarely granted)
Tax Brackets	Progressive (10% - 37%) based on income levels	Progressive (5% - 30%) based on income levels
Deductions & Credits	Extensive credits (e.g., Earned Income Credit) and deductions (e.g., mortgage interest)	Limited deductions (e.g., Section 80C for investments), fewer credits than the USA
State/Local Taxes	Separate state income taxes, varying by state	No separate state income tax; single income tax system by the central government

In 2006, **Australia** developed and implemented the **Compliance Effectiveness Methodology (CEM)** to better measure the effectiveness of its tax compliance strategies to improve compliance strategies, treatments, resource allocation, and external accountability through conducting regular taxpayer educational and awareness programs. **Australia** has also implemented **Taxpayer Feedback Mechanisms** to provide feedback on tax processes by taxpayers.

European Union's VAT system utilizes a standardized approach, with clear guidelines and digitized solutions to assist businesses with Harmonized System Nomenclature (HSN) classification. India could adopt a similar, streamlined portal with detailed and clear guidelines, fostering easier compliance and stronger trade relations.

Feature	Europe's Tax System	India's Tax System
Taxation Basis	Primarily progressive tax rates on income, wealth, and corporate taxes	Progressive, with a mix of direct (income) and indirect taxes (GST)
Value-Added Tax (VAT)	Common in EU countries with high rates (e.g., 20-25%)	Goods and Services Tax (GST) implemented at rates of 5%, 12%, 18%, 28%
Corporate Tax	Varies by country (typically 20-30%)	22% standard rate; concessional rates for new firms
Wealth and Inheritance Taxes	Common in many EU countries, high rates	Absent in India; wealth tax abolished, no inheritance tax
Tax Compliance	High compliance with streamlined digital systems	Improving, but still faces challenges with compliance
Social Security Contributions	Significant portion (up to 50%) of total tax in some countries	No federal social security; Employee Provident Fund (EPF) for formal sector only
Green Taxes	Widely adopted for environmental protection	Limited implementation but gradually increasing

Unlike India's multi-slab GST system, **Australia** provides a simpler GST structure with fewer tax slabs, making compliance easier. India could consider a simplified HSN-based slab system for frequently traded goods. This can lead to a reduction in the necessity for constant reclassification.

Aspect	India	Australia
GST Rate Structure	Multi-rate structure with exemptions, leading to complexity.	Single-rate GST (10%) on most goods and services.
Revenue Sharing	SGST, CGST, and IGST split revenue between central and state governments.	Federal GST, redistributed to states based on fiscal equalization.
Compliance	Higher compliance burden, especially for SMEs due to complex filing requirements.	Lower compliance burden with simplified filing requirements.
Administration	Both central and state authorities oversee tax administration, creating coordination issues.	Centralized administration, making it more efficient and streamlined.
Refund Process	Time-consuming refund process, especially for exporters.	Faster and more efficient refund process, reducing cash flow issues.

Canada uses a flexible tax structure with significant support for Small and Medium-sized enterprises (SMEs). By benchmarking policies from Canada, India could offer tax breaks or simplified compliance options for specific sectors, aiding in cash flow, ease of doing business, and reducing taxes for smaller enterprises.

Aspect	Canada's Tax System	India's Tax System
Tax Type	Progressive, with federal and provincial taxes	Progressive, with central and state taxes
Income Tax Rates	Ranges from 15% to 33% depending on income level	Ranges from 5% to 30% depending on income level
GST/VAT	Goods and Services Tax (GST) at 5%	Goods and Services Tax (GST) at 18% (standard rate)
Corporate Tax	Federal tax rate of 15%, provinces may add 11-16%	Corporate tax rate of 22% to 30% depending on the entity
Filing Frequency	Annual tax returns with quarterly estimated payments	Annual tax returns with monthly/quarterly advance tax payments

Direct Tax Code :

The Direct Tax Code 2025 aims to supersede the existing Income Tax Act, of 1961. The major goal of DTC 2025 is to reduce the complexity of the tax system and streamline various tax rates and exemptions to create a uniform tax structure. It eliminates the concepts of Assessment Year (AY) and Previous Year (PY) and will only consider the Financial year (FY), along with reclassification of capital gains as regular income. It also classifies taxpayers as residents or non-residents, and it removes terms like RNOR(Resident but Not Ordinary Resident). It introduces **common tax rates for domestic and foreign companies,** which may reduce tax discrepancies. The primary objective of these changes is to make income tax more straightforward by consolidating tax brackets and introducing uniformity across different categories of taxpayers. The Direct Tax Code 2025 is expected to be introduced during the Union Budget 2025.

Income Slab	Current Tax Slabs (FY 2023-24)	Proposed Tax Slabs (DTC 2025)
Up to ₹2.5 lakh	No tax	No tax
₹2.5 lakh - ₹5 lakh	5%	10%
₹5 lakh - ₹10 lakh	20%	15%
Above ₹10 lakh	30%	20% (with additional tax for higher income)

Recommendations:

Executing tax laws without flaws is still a dream come true even for developed nations. The tax slabs are stabbing the back of the middle class. Therefore, it's high time to evaluate the world's best practices and include them in our Tax Systems. The barrier between capital investment and capital gains can be brought on the same page if we apply Singapore's single-tier tax system for START-UPs, by giving them proper time to build-up and tax exemptions.

Every citizen has a role to play in their nation, and paying income tax is one of them. But there are still some sections of people who would rather keep their sum, filled up to the brim of their own pockets rather than give it to the country. To tackle this problem, India can adopt USA's Civil Penalties to Incentivize Compliance. Also, The farmers, Retailers, Personal service providers, small-scale businessmen, and some more are unregistered bodies run by citizens of India, making up a major portion. India can register these businesses under the tax system and extend the tax slabs. In return, the government can provide them subsidies and incentives. As India is running at a high speed towards digitalization, The government can not skip the part that some sections of society are still untouched by the reaches of Urbanisation. Their local language has still not overcome the English language barriers inflicted on them.

Reduction in tax evasion:

TDS/TCS compliance is often overlooked therefore, the Government should work on **strengthening TDS/TCS compliance**. The government can begin by initiating sector-specific audits to tackle tax evasion. It can conduct periodic audits for high-risk sectors such as real estate, e-commerce, hospitality, etc. where transactions are huge, invoicing is complex, and irregularity in reporting the sales/income is observed. Establishment of fast-track resolution mechanisms for TDS/TCS disputes to reduce litigation and foster smooth functioning. Work with payroll and accounting software providers to automate TDS/TCS deductions seamlessly.

Training Workshops and Programs at the local level:

The Central Government should initiate Training and Awareness Programs or conduct Training Workshops in the local language to educate local or rural traders and farmers regarding GST, the filing process, and its benefits. These workshops can be held quarterly or even monthly. Workshops can also be scheduled during peak seasons. The central government will be responsible for its management and fund allocation. The authority must invite local CAs as key figures in the GST filing and advisory workshops. These professionals can also help translate GST processes into practical terms for the local population in their dialect. This will also help the local CAs to get recognition as well.

Partnership with NGOs and Local bodies:

Collaboration with NGOs like PRATHAM and CARE India and local bodies like gram panchayats and zila panchayats to raise GST awareness and offer hands-on GST filing guidelines. In return, the government can provide tax benefits on GST and assure priority in government tenders and initiatives as an incentive to these associations.

Set Up GST facilitation centres :

Establish GST centers at hamlet (Tola/Basti) levels, equipped with internet facilities and trained personnel to assist with GST filing. CAs and Computer Operators with fluency in the local language should be assigned at each center to primarily assist with complex GST-related queries, filing returns, and resolving compliance issues.

Conclusion :

India's tax system has come a long way, with reforms like VAT, GST, and the forthcoming Direct Tax Code 2025 marking significant strides toward simplification and uniformity. However, as highlighted, there are still substantial gaps in compliance, awareness, and adaptability that hinder optimal revenue generation and economic growth. Simplifying GST slabs, streamlining compliance, and introducing taxpayer-friendly mechanisms can help improve efficiency and transparency. To bridge the gap between policy and grassroots implementation, India must prioritize taxpayer education, training workshops in regional languages, partnerships with local bodies, and setting up facilitation centers in rural areas. The journey to a simplified and transparent taxation system is not just about enacting policies but also about fostering trust and collaboration between the government, businesses, and citizens. While challenges remain, blending global insights with localized implementation of new acts and keeping checks to improve the taxation system is a way to streamline the Indian Economy. Drawing inspiration from global trends can help us venture towards the journey of a simplified, pocket-friendly, and transparent economy.