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**THE IMPACT OF INDIAN TAXATION SYSTEM ON ITS ECONOMIC GROWTH**

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**ABSTRACT**

*The study found that in the long run, among the components of direct taxes, personal income tax had no impact on economic growth whiles corporate income tax had a positive statistically significant impact on economic growth. Tax is one of the most important sources of revenue to the Government and at the same time one of the deciding parameter for economic growth. Whereas direct tax impacts directly the disposable income, the indirect tax impacts the Prices of goods and services in the market. Further on the indirect taxes, the study found that in the long run, whiles excise duty had no statistically significant impact on economic growth, customs duty had a positive statistically significant impact. The study therefore concluded that policy makers must be circumspect in targeting which tax components to be used as tools in influencing long term economic growth and economic development.*

*Keywords: Taxation, Concept of Tax, Direct taxes; indirect taxes, economic growth;*

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**INTRODUCTION**

Taxation is the biggest source of public revenue of the modern governments. In a democratic political set up, taxation is responsible for shaping the political activities of the government. Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. In short, tax is the major source of the government's income. Tax is an important tool in the development of the economy. It affects the overall structure of the whole economy. The idea of Taxation is not only difficult but hard to achieve. A Tax payer is not entitled to compel the government, while paying a tax to give something to him in return of the amount paid. But taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly. The sense of the argument is that the tax payer is not entitled to claim any return against the payment of the taxes. Modern taxation policy aims at the fulfillment of the objectives of social welfare. Indian taxation system has undergone tremendous reforms during 2017. The multiple indirect taxes have been subsumed in the new Goods & Services Tax which was implemented from 1<sup>st</sup> July 2017. With the implementation of GST almost 17 types of indirect taxes have been abolished making the indirect tax compliance much easier and free from bureaucracy. The process of rationalization of tax administration is ongoing in India.

**OBJECTIVES**

- 1) To Study the Tax Structure of India
- 2) To identify the different taxes collected
- 3) To clarify the Impact of Taxation.

**RESEARCH METHODOLOGY:**

This Research paper is purely based on secondary data. Various Information are obtained from the different books, Journal and websites of government of India.

**Concept of Tax:**

The word tax comes from a Latin word "taxo". It is a compulsory payment by the people. If a person defies the tax payments, he is punished in the count of law. Tax is a contribution from citizen for the support of the state. Taxes are compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits. It is clear that the tax is voluntary contribution by the tax-payer but it is compulsory in nature. So tax is a necessary contribution by the tax payer to social objective like reducing inequalities in income and wealth, securing high level of employment as well as promoting economic stability with growth.

**Classification of Taxes:**

Taxation is the main source of income of the government. Anyhow, various economists have made an attempt to classify the taxes from different angles. Taxes can be classified on the basis of form, nature, essence, volume and method of taxation.

Following chart provides the vivid picture of the classification of taxation.

1. On the Basis of form----- 1. Direct Taxes
2. Indirect Taxes
2. On the Basis of form Nature ----- 1. Income Tax
2. Property Tax
3. Taxation production
4. Taxes on consumption
5. Taxes on consumption Goods
6. Taxes on capital Goods
3. On the Basis of Essence-----1. Ad volume Tax
2. Specific Tax
4. On the Basis of Volume ----- 1. Single Tax
2. Multiple Taxes
5. On the Basis of Method ----- 1. Proportional Tax

**IMPACT OF TAXATION ON ECONOMIC GROWTH:**

- 1) Impact of Taxation on Production: Taxation can influence production and growth. Such effects on production are Analyzed under three heads. (i) Impact on the ability to work, save and invest (ii) Impact on the will to work, save and invest (iii) Impact on the allocation of resources.
- 2) Impact of Taxation on Distribution: Reduction in inequalities of income and wealth is one of the main objectives of modern welfare government fiscal operation in the time has constantly been recognized as the best means of achieving fair contribution fair contribution of income and wealth in the economy. The taxation May be so devised that it may curb the income and wealth the rich.
- 3) Impact of Taxation of Consumption: Taxation has the regulatory effect also. It can be used as instruments for the purpose of regulation and consumption in the economy-Production can be regulated by imposing have taxation on production of sum type of goods and it exempts other product-Similarly The volume and nature of the consumption can regulate by imposing heavy taxes on the sale of some product.
- 4) Impact of Taxation in Depression: During the person, Taxation reduces the purchasing power in the hand of people-Thus the imposition of fresh taxation is not desirable because low purchasing power result in reduction of effect demand of the commodities and services.
- 5) Impact of Taxation on Inflation: The taxation has different roles in time of inflation depression- The aim of taxation in times of inflation should be to reduce the parching power of the consumers- In the direction, taxation on income and expenditure are considered most appropriate for curbing public spending- To increase the rate of saving and investment, contain taxation concession should also be cleared By the Government in this period purring this period new industries should also be exempted from taxation of the rate of taxation the reduce for some time.
- 6) Impact of Taxation Stability: The most important aim of public finance is to maintain economic stability in an Economic-Thus, the taxation which brings down the purchasing power of the individual encourages more Saving, will bring down the level of economic activity which result in fall of employment, especially in the developing countries.

**CONCLUSION:**

It can be therefore be concluded that economic growth is susceptible to the kind of tax used and hence policy makers should pay attention to the kind of tax to be used, in the attempt to attain long term economic growth. In developing countries both direct and indirect taxes are asked to mobilize substantial Resources to desired fields, discourage unproductive investments, stimulate productive investment, reduces conspicuous consumption and discourages investment in land etc. they have also to be used to transfer an increasing proportion of the addition made to the national income for development purpose. The very most important role of taxation in the developing economics.

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