

# Tax Structure: A Comparative Study between India and some Other Countries

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## Abstract

Taxes are determined by the Central and State Governments along with local authorities through passing certain law time to time. Primarily tax are of two types; i) Direct tax and ii) Indirect tax. Every country frames tax structure with a view to administer its imposition and collection. In this paper an attempt has been made to make a comparison analysis in respect of Tax Structure between India and some other countries. Here, we considered five other countries in which two developed, two developing and one more similar country. In the analysis of the comparison five parameters have been considered ; a) Tax-GDP ratio b) Tax rates c) Time required for tax compliance d) No. of tax payments e) Ease of tax payments. Lastly we have tried to find out India's position in these parameters in comparison to other countries.

**Keywords:** Tax, GDP, Tax Compliance, Tax Comparison, Tax Structure

## Introduction

A tax is a financial charge or levy imposed by the state. It is imposed on an individual or any other legal entity. It is one of the potential source of revenue of the Government. Government whatever does for the welfare of the citizen it needs fund and accordingly it imposed on the public based upon certain principle of equalities. Apart these sometimes tax is used as a tool to encourage or discourage of production, purchase, import, export, sale, distribution etc. Any country collects Tax with abided by a set of Rules and Laws framed before certain period of time. These set of Rules and Laws are called Taxation Structure of a particular country. Growth and Development of a Country is largely dependent on the Taxation Structure adopted by it. High taxation rates and complex tax systems curb growth. Complex tax system invites evasion, higher of compliance and administrative cost, rise of black money, hampering of ease of doing business etc. and on the other hand in the countries with simplified tax system results of ease of doing business and thereby they achieve growth and development. India is one of the largest democracy in the world. Here we see that there are too complex taxation literatures. Here we see tax administration is not so efficient. In the report of the Govt. we find that there are parallel economies even and it is too large to equal to its GDP. This huge extensive parallel economy only denotes the weaknesses in the tax structure of the country. Hence, we shall compare the tax structure of India and other developed and developing countries in order to analyse any strength or weaknesses in the Indian tax structure.

## Review of Literature

In the year 2015 in the working paper on International comparison of Tax regime by CBGA, it was stated that tax structure of India is not so progressive in comparison to other countries. They pointed out that a) India needs to increase the Tax- GDP ratio for adequate revenue mobilisation b) Tax administration is not so efficient c) Lots of exemption in Indian tax and therefore India needs to revisit on it. In the year 2014 in the working paper on International Corporation Tax Rate Comparison and Policy Implication, Jane Gravelle concluded that Corporate tax rate in USA can be reduced down to 25% by removing certain provisions of exemptions. In 2006 in the Working paper on Tax system in India Henley Poirson stated that Indian tax system may be reformed with reducing statutory rates with broadening tax base and thereby to achieve pro growth fiscal adjustment. He also highlighted in respect of tax productivity that there are immense scope to raise direct tax revenue through removal of various exemptions and tightening the tax administration and compliance.

## Objectives of the Study

1. To study the tax structure of India and other five developing and developed countries
2. To compare tax system on the basis of five parameters like- Tax to GDP ratio, Tax Rate in percentage, Time to Comply in hours, No. of installments in Tax payments and Ease of tax payments
3. To identify the rank of India with respect to overall tax structure and ease of doing business

## Overview of Tax Structure of Six Countries

India: Tax structure in India is in a three tier federal structure. The central government, state governments, and local municipal bodies frame this structure. Article 256 of the constitution states that "No tax shall be levied or collected except by the authority of law". Hence, collection of each and every tax should be guided by the then existing law. In India there are two types of taxes-Direct and Indirect. The tax system in India is so complex that one may consider the length and breadth of India. The post GST implementation which one of the biggest tax reform in India, the entire process of tax has become smoother. Here, many indirect taxes have been brought into one umbrella and thereby it has helped to eradicate the cascading effect of imposition of tax altogether. There are three revenue authority in India ; CBDT, CBIC CBEC.

### USA

The U.S. tax system is set up on both a federal and state level. Taxes are imposed on net income of individuals and corporations by the federal, most state, and some local governments. There are several types of taxes: income, sales, capital gains, etc. Federal and state taxes are completely separate and each has its own authority to charge it. The federal government doesn't have the right to interfere with the jurisdiction of the state taxation. Federal marginal tax rates vary from 10% to 37% of taxable income. State and local tax rates vary widely according to its jurisdiction. It varies from 0% to 13.30% of income and many of them are graduated. The US tax system allows individuals and entities to choose their tax year. Most individuals choose the calendar year.

### UK

Taxation in the UK is governed by at least two levels of Government a) Central Government or British Government b) Local Government. Central Government collects income tax, National insurance contributions, Value Added Tax, Corporation Tax and Fuel Duty. Local Government collects revenue from grants from Central Government, Council tax, on street parking fees. Besides, there are another two types of taxes- Excise duty and Stamp duty. Tax in UK is simple and easy to understand with high administrative efficiency.

### South Africa

Taxation of South Africa is also as similar as United Kingdom. Here tax is also levied at two levels i.e Central Government and local government. South African Revenue Services (SARS) Acts is applied on behalf of State government for the collection of taxes. Here residence-based taxation system is used whereby residents are taxed on worldwide income and non-residents are taxed on South African- locally sourced income. With 22.2 million of its 58 million-strong population pay taxes in South Africa. Most of the state's income comes from personal and corporate tax. Personal tax includes income tax and business taxes, capital gains tax and inheritance taxes. Indirect tax includes Value-Added Tax (VAT), which are nearly a third of the government's coffers. Moreover, there is fuel duty which has an important contribution into the Govt's exchequer.

### China

The Individual Income Tax in China (commonly abbreviated IIT) is administered on a progressive tax system with tax rates ranging from 3 to 45 percent. Since its big tax reform in the year 1994 tax system in China has become well structured. There are 18 different kinds of taxes in China, which can be divided into three categories according to their nature. Goods and services taxes, including VAT, Excise Tax, Business Tax, Vehicle Purchase Tax and Customs Duty. Income taxes, includes Corporate Income Tax and Individual Income Tax.

### Mexico

Income Tax in Mexico is progressive. Like the U.S., tax rate depend on the amount of assessee's earnings, deductions, and other factors. Mexico's individual income tax rates range from 1.92% to 35%. Non-residents (those in Mexico on a work visa/permit) pay 15% to 30%. Mexico's corporate tax rate is a flat 30%. It is one of the more aggressive countries in Latin American when it comes to taxing its residents. Mexico taxes residents on their worldwide income. This country is very happy to deny any and all expenses of a business which are not documented or are paid to a tax haven country.

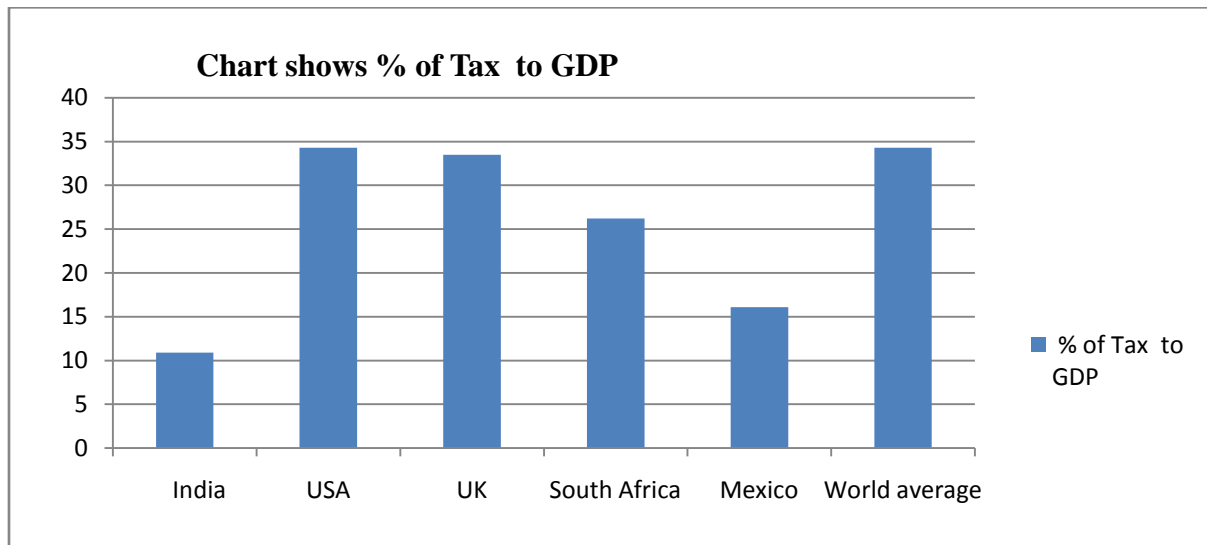
## Data Analysis and its interpretation

**Table shows Tax to GDP ratio in the year 2017-18:**

Name of the countries	% of Tax to GDP
India	10.9
USA	34.3
UK	33.5
South Africa	26.2
Mexico	16.1
World average	34.3

**Source:** Data from Revenue Statistics 2019, <http://oe.cd/revenue-statistics>

**Note-** In case of China- Tax to GDP ratio is not available in the site



Tax to GDP ratio has been calculated by dividing total tax revenue collected by the Govt. in the particular year by the Total GDP of that country. We know that share of Tax in GDP of any country is a vital indicator. More share of tax in GDP indicates higher tax collection and more development in the country and also higher per capita income. On the other hand a low Tax-to-GDP ratio poses significant challenges for the government to spend money on creating necessary infrastructure in the economy and raise investment.

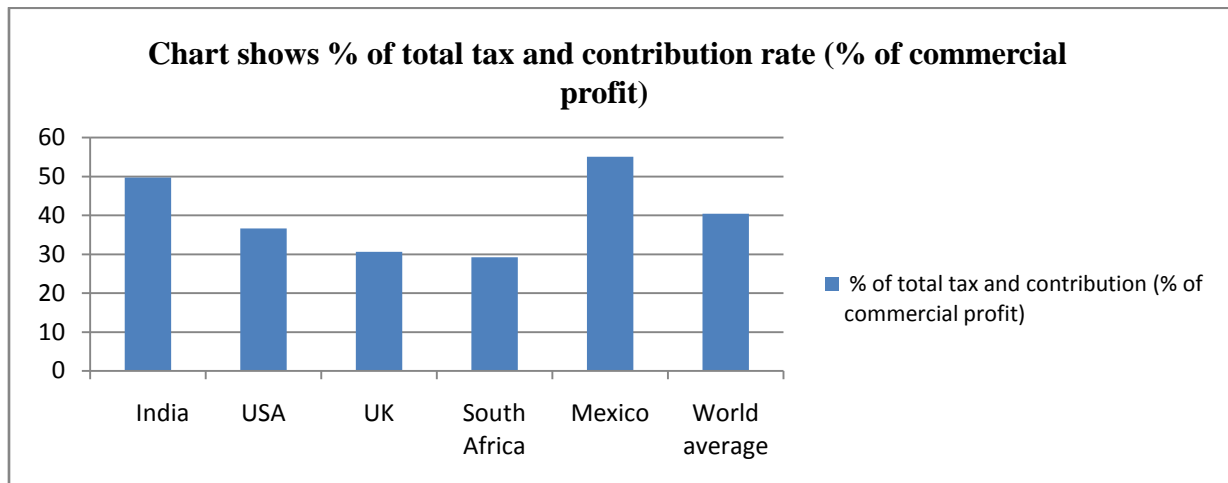
In the analysis it is seen that India is having the lowest Tax–GDP ratio in comparison to other developed and developing nations. It is even lower than world’s average. This low ratio may be due to tax evasion or low per capita income or presence of more

deductions and exemptions in the Taxation Regulations.

**Total tax and Contribution rate in % (of commercial profit) in the year 2018-19**

Name of the countries	% of total tax and contribution (% of commercial profit)
India	49.7
USA	36.6
UK	30.6
South Africa	29.2
Mexico	55.1
World average	40.4

Source: World Bank, Doing Business project (<http://www.doingbusiness.org/>).



Total tax rate measures the amount of taxes that are mandatory contributions by the businesses after accounting their all allowable deductions and exemptions from their commercial profits. Here, taxes such as personal income tax, value added taxes, sales taxes or goods and service taxes are excluded. The data covering taxes payable or contributable by the businesses abiding by the government Regulations. It is done at any level whether at federal, state, or local but applicable to the

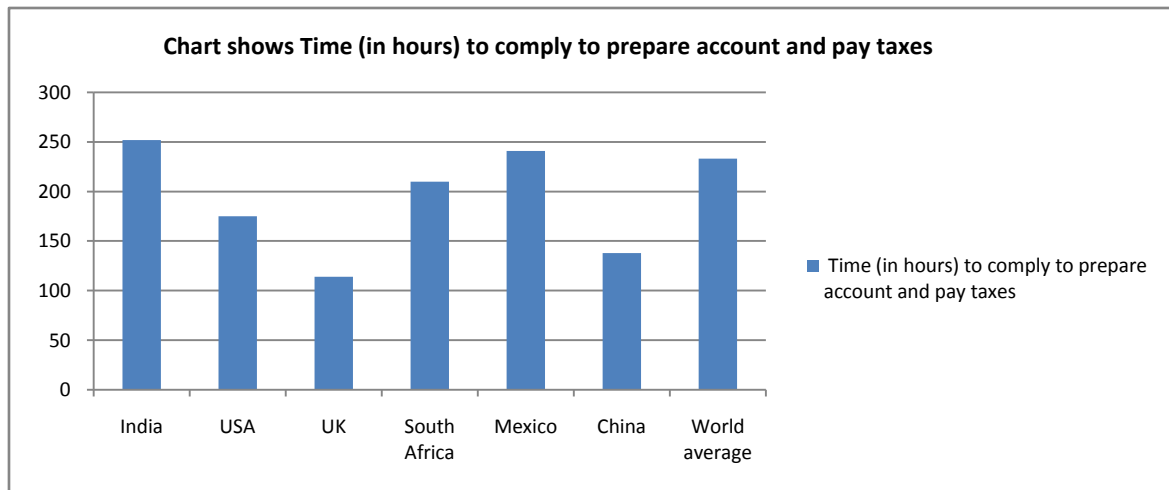
standardized businesses. It bears a significant impact in their income statements.

In the analysis we see that total tax rate of India is quite high. Only Mexico exceeds India’s total tax rate amongst the selected sample. Further we have followed that India’s Tax to GDP Ratio is amongst the sample is the lowest. So these two issues raise severe concerns over the overall Indian Tax Policy and Administration.

**Time to comply in preparation of account and pay taxes in the year 2018-19**

Name of the countries	Time (in hours) to comply to prepare account and pay taxes
India	252
USA	175
UK	114
South Africa	210
Mexico	241
China	138
World average	233

Source: World Bank, Doing Business project (<http://www.doingbusiness.org/>).



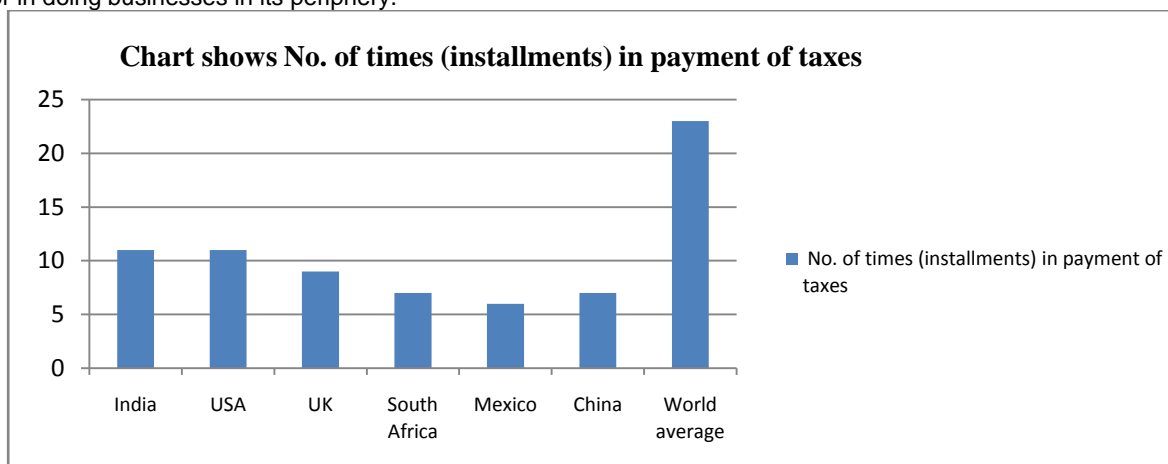
This time to comply is the time spent at the corporate assesses in adopting heir correction measure in submitting the correction of account or preparation of information for the tax officer. Here, a corporate tax includes corporate income tax, Sales tax or VAT or GST and Labour tax. In practice it is seen that more than on forth of corporate assesses report in their return voluntarily to the CIT. It is therefore for report to get reviewed in respect of underpayment of taxes. This is an important indicator.

In the analysis it is observed that total time taken (in hours) for tax compliances in respect India is high as compared to other developed and developing countries. It is even higher than that of world average. So India has to try to bring down the tax compliance hours with the object of attracting more corporate sector in doing businesses in its periphery.

**No. of payments of taxes (installments) in the year 2018-19**

Name of the countries	No. of times (installments) in payment of taxes
India	11
USA	11
UK	09
South Africa	07
Mexico	06
China	07
World average	23

Source: World Bank, Doing Business project (<http://www.doingbusiness.org/>).



# Asian Resonance

Tax payments number is the total no. of taxes paid the businesses including E. filling in a particular year. It is well known to all that taxes are computed by the businesses once in a year but payments are made in more frequent. It is also an important indicator because more in numbers in payments means poor in tax administration and vice versa.

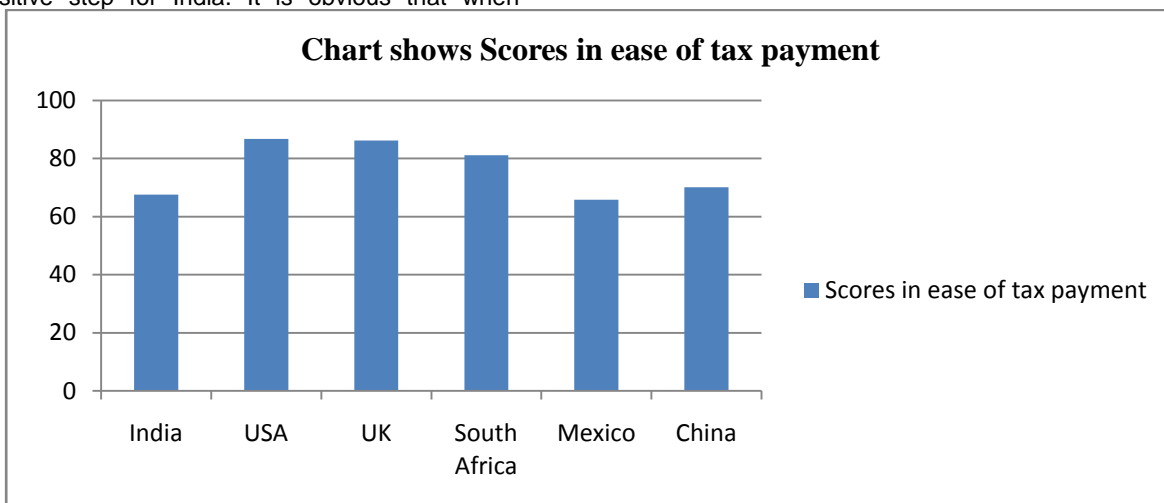
In the aforesaid discussion it is seen that India has a highest number of taxes payments along with USA in comparison to other sample countries where they relatively have lesser number of taxes payments. However, we see that world average is more high with 23 times in a year. This is high number of taxes payments is happened due to existence of excessive number of taxes and its associated multiplicities. Hence, need to merge various number of taxes into one and contextually it is said that GST is a positive step for India. It is obvious that when

number of taxes will be reduced then number of payments will also be reduced.

### Ease of Tax payments scores and corresponding Rank (in 190 countries) in the year 2018-19

Name of the countries	Scores in ease of tax payment	Rank in easy of payment of taxes in the global list of 190 countries
India	67.6	115
USA	86.8	25
UK	86.2	27
South Africa	81.2	25
Mexico	65.8	120
China	70.1	105

Source:- pwc, paying taxes -2020



The ranking of economies in respect to the ease of paying taxes is determined by sorting their scores for paying taxes. These scores are the simple average of the scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax and contribution rate.

In the analysis it is seen that India's scores just ahead of only one country- Mexico. It is far behind of other countries brought into comparison analysis. It simply implies that tax administration in India needs to be reformed.

### Ease of Doing Business Rank (in 190 countries) in the year 2018-19

Name of the countries	Rank in Global list of 190 countries
India	63
USA	06
UK	08
South Africa	84
Mexico	60
China	31

Source: - pwc, paying taxes -2020

Doing Business measures all taxes and contributions that are government mandated at any level of authority like-federal, state or local and is applicable to the standardized business or a medium-

size company and which is abided by all measures as adopted by the tax administration in the particular year. It bears an impact in the financial statements of the businesses.

In the data cited above it is found that India's rank in 190 countries globally is 63<sup>rd</sup> and in the sample group of six countries it's position is 5<sup>th</sup>. It is only ahead of South Africa. This improvement has only been possible due to introduction of GST in 2017, which has eased multiple indirect tax regimes. But in comparison to other countries it may be suggested that India needs to more strengthening of tax administration.

### Findings

From the entire analysis based on the sample size of six countries done above we see that i) India has lowest Tax-GDP ratio among the selected sample. ii) India has significantly high Tax rate and only below than Mexico iii) India's Tax compliance time (to prepare accounts and pay taxes) is highest iv) India's Total number of Tax payments is also high and at par with USA but below than world average. v) India's scores in Ease of Tax payments is also low but a little better than Mexico. In this regard India's global rank is also far behind and it is 115<sup>th</sup> among 190 nations. Lastly, we see that India's global rank in

Doing Business is 63<sup>rd</sup> among 190 countries and only ahead of South Africa.

### **Recommending Conclusion**

In the comparative discussion of Tax Structure of India among developed and developing nations with based upon five criteria, it is seen that India lag behind in almost all indicator as of other nations brought into the analysis. On the basis of this conclusion it may be suggested that India's Tax administration has to adopt some measures with a view to simplifying, strengthening and effective Tax structure. It is because a country's economic progress and industrial growth largely depends upon burden of tax, its administrative mechanism and management. Although in India both of Central and State Government have undertaken various policy reforms and process of simplification towards great predictability, fairness and automation and

consequently India has been able to achieve the rank of within top 100 of 190 countries globally in respect of 'Ease of doing businesses'. Apart these all the concerned authorities have to think together further with adequate seriousness with the object of adaptation of more reformative changes and thereby more improvement and simplification of Indian taxation system.

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