

A STUDY OF TAXATION AWARENESS AMONG PEOPLE: SPECIAL REFERENCE TO GWALIOR REGION

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Abstract: Gwalior, a city with huge economic potential will be possibly seeing a surge in the number of potential businesses and with introduction of GST, which has brought a complete change in the indirect tax regime, it becomes imperative for these proprietorship based business to have a good idea about the taxation system prevalent in the country. Through this research we tried to gauge the level of taxation literacy among small businesses in the city. Besides a change in the tax structure has proved to be a great opportunity for Accounting and Tax consultancy firms. There has been sudden increase in the number and cost of such services. Companies are coming up with new and innovative ideas of providing such services thus making them more users friendly and easy to use. A lot of new and successful start-ups have also come up in this field signifying a huge potential that this field carries. Therefore, through this research we also tried to understand the future potential of this field.

Keywords: GST, Tax Literacy

1. INTRODUCTION

As Albert Einstein said “The hardest thing to understand in this world is Tax”, thus this is what this report aims to understand. With increasing number of small businesses, major changes in the tax regime and a drastic increase in tax payer’s base, it has become more so important to understand basic tax laws and accounting practices prevalent in the country. It has become very important particularly for small and medium businesses to be **tax literate**, thus this report is a cross – sectional study to understand the current scenario of tax literacy in Gwalior.

1.1 Taxation System in India

Tax comes from a Latin word *taxo*, and it means a mandatory financial charge levied upon an individual or any other legal entity, by the government or the state to fund various public expenditure. Taxes are classified into two types Direct and Indirect Tax.

Direct taxes are those taxes where the financial burden to pay the tax is on the same individual or entity on whom the tax is levied i.e. it has same point of impact and incidence. Income tax levied on the income of individual is a type of direct tax. Indirect tax are those taxes where financial burden to pay the taxes can be shifted to others i.e. the point of incidence and impact are different in case of indirect tax. Goods and Services tax is an indirect tax.

The Constitution of India gives power to the Central and State government to levy tax in India. It clearly demarcates the authority of both state and central government in terms of collection of taxes. Prior to implementation of Goods and Services tax state government used to impose a host of indirect taxes like Value Added Tax, Service Tax, etc. The constitution provides the power to collect taxes through the acts passed in parliament that are Income Tax Act 1961, Goods and Services Tax Act 2017 and various finance bill and court judgment.

1.2 Types of Taxes

1.2.1 Direct Tax

Direct taxes are those taxes, which have same incidence and impact i.e. the person on whom the tax is imposed has to pay the tax. Under it the burden of tax cannot be shifted to other persons, the same person on whom the tax is levied has to bear the burden.

a. Income Tax

It is a Tax, which is levied on the income of individuals, unregistered firms, Hindu Undivided Family (HUF) and other association of people. It is progressive in nature. Under it, first income is divided into various heads that are salary, business profession, house property, capital gains and other sources. After it income under all the heads is added up and taxed as per tax slabs. The tax slab for the year 2018-19 is:

Table 1.1 : It depicts the various tax slabs for the financial year 2018 - 19

Income Level (In Rupees)	Amount of Tax (In Percentage)
0 - 250000	No Tax
250000 - 500000	5%
500000 - 1000000	20%
Above 1000000	30%

b. Corporate Tax

It is levied on corporates or companies. As under the companies act, any company private or public is considered a separate entity, therefore it has to pay separate tax for itself. Both private and public company have to pay corporate tax. A domestic company for the year 2018-19 has to pay tax at the rate of 30%. A company whose gross turnover is less than fifty crores will have to pay tax at the rate of 25%

c. Estate Tax

First presented in 1953. It was demanded on the aggregate property passing on the demise of a man. The entire property of the perished individual established his riches and obligation for the duty. The expense presently stands cancel with effect from 1985.

d. Wealth Tax

First presented in 1957. It was exacted on the abundance of net riches (more than 30, 00,00,0 @ 1 percent) of Individuals, Joint Hindu Families and Companies. Wealthtax has been a minor wellspring of income. The duty currently stands annul with effect from 2015.

e. Gift Tax

First presented in 1958. It was collected on all gifts aside from the one given by the magnanimous organization's administration organizations and privately owned businesses. The duty presently stands canceled with effect from 1998.

1.2.2 Indirect Tax

Indirect taxes are those types of taxes which have different incidence and different impact i.e the person on whom tax is imposed does not has the burden to pay it. These are taxes under which taxes are imposed on someone but someone else pays there taxes.

For Ex, Goods and Services tax is imposed on manufacturer or trader but it is paid by the customer, so here the tax is imposed on someone but someone else is bearing the burden. Indirect Taxes can be characterized as tax collection on an individual or element, or, in other words for by someone else. The body that gathers the assessment will then dispatch it to the legislature. Yet, on account of direct expenses, the individual promptly making good on the regulatory expense is the individual that the administration is looking to impose. Indirect Tax is gathered by one element in the supply chain (for the most part a maker or retailer) and paid to the administration, however it is passed on to the buyer as a feature of the price tag of a decent or benefit. The customer is eventually making good on the government expense by paying more for the item.

Goods and service tax (GST)

Goods and services Tax is an indirect tax which was passed in parliament on 29th March 2017 and it was rolled out on 1st July 2017. It is a tax which subsumed all other indirect taxes in the country and became the one single indirect tax. It is comprehensive, multi-stage and destination based tax which is levied on value addition.

2. REVIEW OF LITERATURE

Many studies have been directed covering diverse parts of pay charge structure, for example, individual salary impose, capital additions tax assessment, farming tax collection, productivity of pay assess organization and so on throughout the years. In this section, the accessible writing was concentrated to get an understanding into the investigation.

Indian Taxation Enquiry Committee (1924) was named by Government of India to look at the weight of tax collection on various classes of individuals, value of tax collection and to recommend elective wellsprings of tax assessment under the chairmanship of Charles Todhunter.

Tax collection Enquiry Commission (TEC) (1953-54) headed by John Matthai was set up to audit the duty structure in India. It completed a top to bottom investigation of the focal duties and their organization. It prescribed augmenting and extending the expense structure both at the Center and the State level to finance advancement cost and decreasing huge imbalances of pay. It likewise suggested for giving duty impetuses to creation and venture and occasional evaluation of same. Further, the commission additionally prescribed the financing of little research areas in chose inquire about organizations by the administration.

Kaldor (1956) was welcomed by the administration of India in 1955 to survey individual and business impose in the Indian assessment framework with the end goal of enlarging assets for the second multi year plan. He found that predominant tax assessment framework in India around then was wasteful and biased. He prescribed the presentation of a yearly duty on riches, tax collection of capital gains, a general blessing charge and an individual use impose for widening the expense base. For lessening the extent of tax avoidance, he likewise suggested the foundation of an exhaustive detailing framework on property exchanges and different exchanges of capital nature. It was contended that all immediate duties ought to be evaluated at the same time based on a solitary extensive return. He further recommended that greatest rate of duty on salary ought not surpass 45 52 percent. At long last, it was proposed that to guarantee exclusive requirement of organization in the Revenue Department, there ought to be a sufficient increment in the scope of pay rates payable to salary assess officers.

Lewis(1982) contemplated the effect of expense information and mentalities of a person on finishing the government forms. His point was to consider the effect of increment in duty learning on assessment consistence conduct. He found that there is lacking information about expense directions among the populace.

Eriksen and Fallan (1996) through their investigation found that monetary information associates with demeanor towards tax collection. They have proposed that assessment conduct can be enhanced by a superior comprehension of duty laws. Citizen must be given better assessment learning so as to enhance impose morals and consistence conduct. Sexual orientation contrasts in assessment information and demeanor towards tax assessment were considered by Fallan [1999]. The discoveries of this investigation demonstrate that male understudies have a fundamentally stricter demeanor towards their very own tax avoidance and female understudies have an altogether stricter frame of mind towards other individuals' tax avoidance. Singh [2003] in his investigation found that general assessment information of an individual is connected with citizen's capacity to comprehend and understand the principles and directions of tax collection, and their capacity to consent to them.

Loo and Ho (2005) inspected competency of salaried people of Malaysia towards self evaluation framework and found that duty learning of respondents is low subsequently making them clumsy under self appraisal routine

Nero et.al(2010) contemplated assess proficiency level among representatives of Sabah and Sarawak's conditions of Malaysia. It was discovered that the assessment proficiency level in the two states isn't exactly palatable.

Saad (2009) in his examination on consistence conduct of salaried citizens in Malaysia found the proof that Malaysian citizens see reasonableness of the pay charge framework in a few measurements. Additionally, assess learning and expense consistence were appeared to influence – reasonableness recognitions.

In the wake of assessing the pertinent writing, it turns out to be certain that dimension of expense learning among people is observed to be low in pretty much every investigation. In this way it turns out to be evident that creating charge information among citizens is an imperative component in working a fruitful duty framework. Additionally it tends to be said that reviews identified with expense education were for the most part done in nations other than India. In India no such sort of study which has decided duty education level has been embraced. Along these lines the present examination connects this hole.

3. RESEARCH METHODOLOGY

Objective of the study: To study the literacy level of people towards current taxation system

Sample Size: A sample size of 40 has been selected for the purpose of this study. Small and Medium enterprises, running as sole proprietorship, across various markets of Gwalior have been selected.

Sample Area: The research has been conducted across major markets of Gwalior. Markets like Maharaj Bada, Sarafa Bazar, Gandhi Market, Topi Bazar, Subhash Market, Thatipur Market, etc have been taken for the purpose this study.

Data Collection: For the purpose of this research both Primary sources of data have been used. Primary Data has been collected through survey of about 40 small and medium enterprises across major markets in Gwalior. A questionnaire was administered to survey and collect the primary data, for determining the level of Tax and Accounting literacy in the city of Gwalior. It was used as one of the tool for the purpose of data collection, it tries to gauge and understand the knowledge of these businesses regarding Tax laws and accounting practices prevalent in the country. Besides it I have also used my personal observation of these people to understand about their businesses.

Sampling: The method of random sampling is used for the purpose of conducting this research, under which businesses are randomly selected from the population for the purpose of conducting the research. Under it every one in the population has equal chance of being selected.

Tools Applied: We have used cross tabulation, charts to analyse the data.

4. RESULTS AND DISCUSSIONS

To achieve the objective we have prepared the questionnaire and got it filled by 50 respondents. The result of all the questions is given below:

1. Use of accounting service: 37 out of 40 respondents have said that they use accounting services. It also puts a light on the high demand of such services, it might have been increased after the introduction of Goods and Services Taxes.
2. Money spent on accounting services: 50 % of people spend upto Rs 5000, 37.5 % spend Rs 5000-10000 and rest of 13.5 % spend more than Rs 10000.

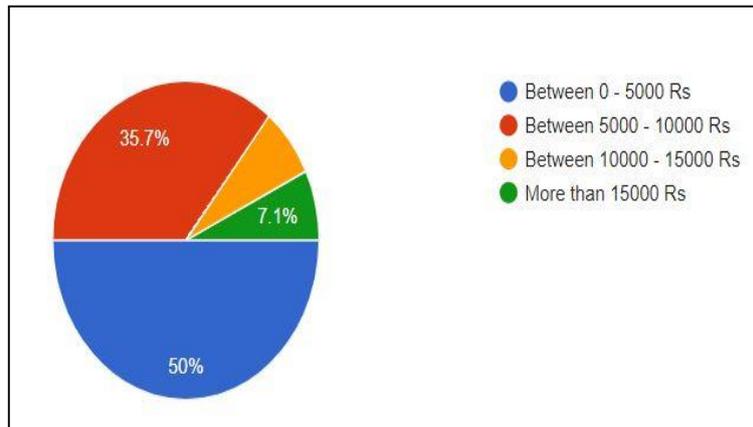


Figure 4.1: Income group of respondents

3. Awareness about income tax slab: 56% people know about the income tax slab while 44% did not know about it.
4. Awareness about GST: 97% people know about it
5. Number of tax returns a normal business has to file under GST: only 17.6% people has given the correct answer i.e. 4 times

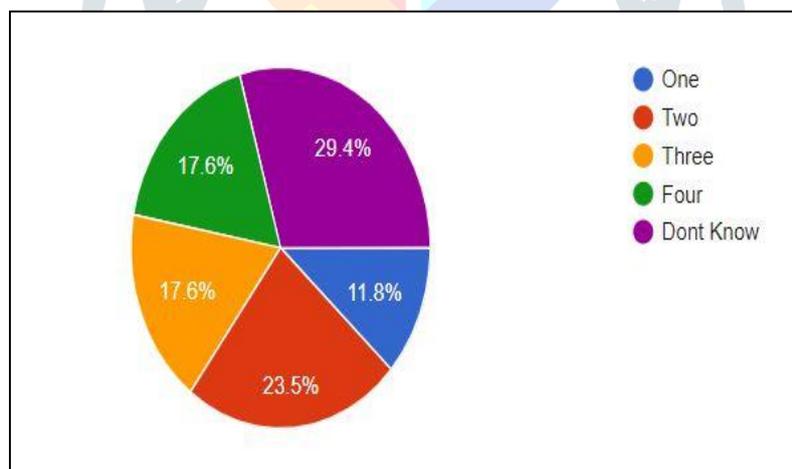


Figure 4.2: Awareness of students about number of tax returns a normal business file

6. Purpose of filling GSTR 1: Only 41% respondents have given the right answer (monthly sales) and 30 % did not know about it GSTR1.

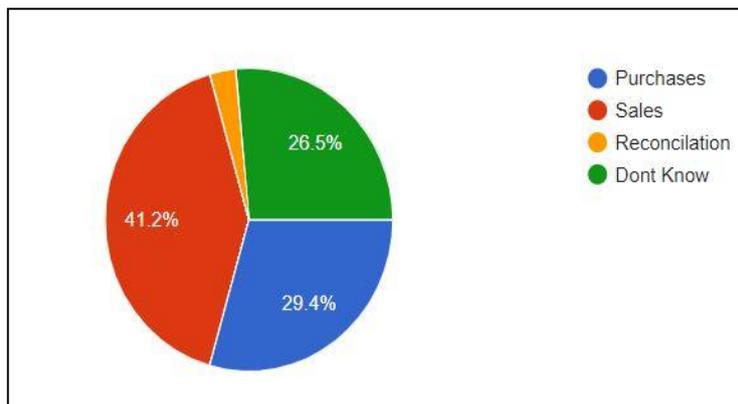


Figure 4.3 Respondents aware about the purpose of filling GSTR 1

7. Awareness about input tax credit: only 4 % of respondents knew about input tax credit (ITC)

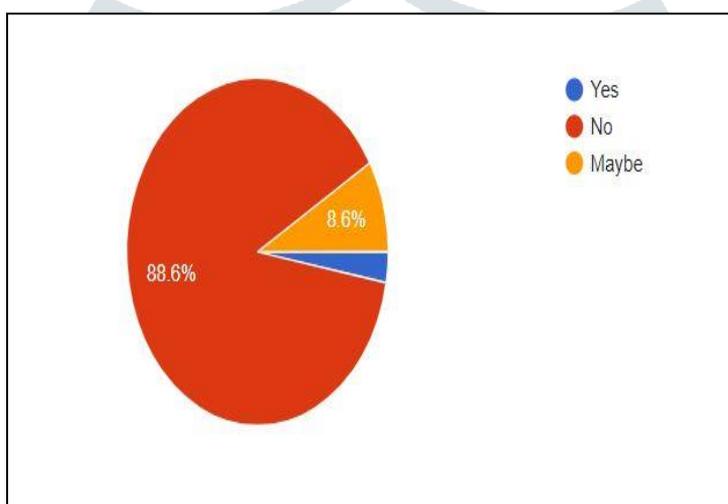


Figure 4.4: Awareness about input tax credit

Conclusion

We tried to understand the amount of tax literacy among small businesses in Gwalior region. To achieve this objective we have prepared the questionnaire and approached small businessmen to fill it.

After successfully conducting the research by using both primary and secondary sources of data we were able to and understand the level of tax literacy in Gwalior region. We found that good percentage of people in Gwalior is aware of various taxes that are prevalent in the country. We also found that many of them although aware of the tax, didn't know much about them in detail. People were not much aware about the GSTR1 and input tax credit.

We also found that a lot of people were using some sought of tax consultancy service. They were just aware of tax laws or had a very basic idea of tax laws, they didn't knew anything in detail about the tax laws, which proves that people have a very high dependence on such type of services.

Further we found that most of the people are currently spending around 5000 rupees annually on such type of services and also a large chunk of people are spending above 5000 rupees annually and we believe the number is going to increase in future as more people will be shifting towards the bracket of above 10000 rupees annually due to high demand of such services and also high dependence on them.

Future Prospects

This report is a descriptive study or cross-sectional study; it aims to describe the current situation of tax literacy in Gwalior, by identifying three major question, amount of tax literacy, amount of usage of tax consultancy services and amount of expenditure on such service. It also provides the answer to these questions thereby depicting the current situation of tax literacy.

This report has huge future prospects in terms of that it can act as a base study for future researches on the same topic, its data can be used to analyze the changes, if any, that would take place in future. It can provide raw data for comparison and analysis in future, with the help of which one can identify the increase that have taken place in the amount of tax literacy among businesses, the amount of usage and dependence on tax consultancy services and the amount of expenditure incurred on such services.

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