TAXATION- CONCEPTS AND TRENDS

–Pooja Rangaprasad

The Government performs diverse functions ranging from defence of the country and maintenance of law and order in the country to promoting economic development and delivering social services like education and healthcare. Clearly, the Government needs a significant amount of financial resources for delivering all these services. It mobilizes these funds from the country's resources mainly through taxes, fees/ service charges and borrowings.

Tax Revenue and Non-Tax Revenue

Government Revenue can be divided into two categories: tax revenue and non-tax revenue.

Tax Revenue: Tax refers to the money collected by the government through payments imposed by legislation.

Non-Tax Revenue: Non-Tax Revenue refers to revenue of government raised through instruments other than taxes such as fees/user charges, dividends and profit of PSUs, interest receipt, penalty or fine etc.

Direct and Indirect Tax

Government revenue through taxation can be broadly divided into Direct Taxes and Indirect Taxes.

Direct Tax: Those taxes for which the tax-burden cannot be shifted or passed on are called Direct Taxes. What this means is: any person, who directly pays this kind of a tax to the Government, bears the burden of that particular tax.Examples include corporation tax, personal income tax and wealth tax.

Indirect Tax: Those taxes for which the tax-burden can be shifted or passed on are called Indirect Taxes. What this implies is: any person, who directly pays this kind of a tax to the Government, need not bear the burden of that particular tax he/she can ultimately shift the tax-burden to other persons later through business transactions of goods/ services. Indirect Taxes include Customs Duties, Excise Duties, Service Tax, Sales Tax and Value Added Tax (VAT).

Indirect tax on any good or service affects the rich and the poor alike. Unlike indirect taxes, direct taxes (i.e. Corporation Tax, Personal Income Tax, WealthTax etc.) are linked to the tax-payee's ability to pay and hence are considered to be progressive.

Corporation Tax: This is a tax levied on the income of Companies under the Income Tax Act, 1961.

Taxes on Income: This is a tax on the income of individuals, firms etc. other than Companies, under the Income Tax Act, 1961. This head also includes other Taxes, mainly the 'Securities Transaction Tax', which is levied on transaction in listed securities undertaken on stock exchanges and in units of mutual funds.

Wealth Tax: This is a tax levied on the specified assets of certain persons including individuals and companies, under the Wealth Tax Act, 1957.

Customs Duties: It is a type of tax levied on goods imported into the country as well as on goods exported from the country.

Excise Duties: It is a type of tax levied on those goods, which are manufactured in the country and are meant for domestic consumption.

Sales Tax: It is levied on the sale of a commodity, which is produced/imported and being sold for the first time.

Service Tax: It is a tax levied on services provided by a person and the responsibility of payment of the tax is cast on the service provider.

Value Added Tax (VAT): VAT is a multi-stage tax, intended to tax every stage of sale of a goods where some value has been added to the raw materials; but taxpayers do receive credit for tax already paid on the raw materials in earlier stages.

Division of Taxation Powers between Centre and States

The Constitution of India provides a clear division of the roles and responsibilities of the Central Government and State Governments, which has translated into a division of expenditure responsibilities and taxation powers between the two.

In India, the power to levy taxes and duties has been divided among the Governments at the three tiers, i.e. Central Government, State Governments, and Local Bodies. This division follows specific provisions in the Indian Constitution.

- Central Government has been vested with the power to levy: Income Tax (except tax on agricultural income, which the State Governments can levy),Customs duties, Central Excise, Sales Tax and Service Tax.
- State Governments have been vested with the power to levy: Sales Tax (tax on intra-State sale of goods), Stamp Duty (a duty on transfer of property), State Excise (a duty on manufacture of alcohol), Land Revenue (a levy on land used for agricultural/ non-agricultural purposes), Duty on Entertainment and Tax on Professions.
- Local Bodies have been empowered to levy: tax on properties (buildings, etc.), Octroi (a tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, etc.

The system of Sales Tax levied by State Governments has now been replaced with Value Added Tax (VAT).

Distribution of Revenue collected in the Central Tax System

As required by the Constitution of India, a Finance Commission is set up once every five years to suggest sharing of financial resources between the Centre and the States, a major part of which pertains to the sharing of revenue collected in the Central Government Tax System. At present, the

Continued on page 40

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EMPLOYMENT STRATEGY FOR ...

Continued from page 1

This sector with large employment potential requires improved connectivity, development of tourist circuits, comprehensive review of security restrictions in Ladakh, training youth in the hospitality and adventure tourism sector and creating an integrated online tourism portal in PPP mode.

(v) Handicrafts – The handicraft sector in J&K occupies an important place, employing 4-5 lakhs artisans, 179 major craft clusters and revenue generation of over Rs. 1000 crores. To boost growth in the sector some initiatives are small carpet production centres, development of a cluster for embroidery and crafts, building a tangible "Kashmir" brand image and design and enforce traceability norms.

(vi) Micro, Small and Medium Enterprises (MSME) - Focus on improving access to finance by reviving the J&K State Financial Corporation (JKSFC), increasing the scope of central employment scheme (PMEGP) and purchase preference for government procurement

(vii) IT&ITES/BPO - Long term strategy for success in the sector would require peace, connectivity, vibrant hospitality sector and skilled manpower. An immediate 'quick win' strategy would be to connect all the districts on a priority basis, an operational SWAN network, simplification of procedures to encourage private investments and creating infrastructure in terms of Software Technology Parks.

Skill Development and Direct Employment

India's growth trajectory has used the skills of the educated middle-class to boost services ranging from IT and software to, airlines, banking, hotels and telecommunications. In J&K, the long drawn militancy and the disturbed political environment have eroded the skill base of the youth in the state. Besides, this problem of skill gap is sharper in J&K due to the lack of private sector initiative in industry which is often an important driver for skill acquisition.

Skill Empowerment and Employment for J&K (SEE J&K) : SEE J&K Scheme is a placement linked, market driven skill training programme for J&K youth. MoRD will be the nodal agency to implement the Scheme in J&K. The *Swaranjayanti Gram Swarozgar Yojana* (SGSY) Scheme, which is currently implemented by MoRD and which forms the basis of this Scheme, is limited only to rural BPL youth. The proposed scheme for J&K will be a Central Sector Scheme, and will cover all youth: from rural and urban areas, and, BPL and non-BPL category. This scheme will cover 1 lakh youth from J&K in the next 5 years and will be implemented through competent training providers, from the private sector and non-profit organisations. The scheme will cover training for salaried employment as well as self-employment. It is estimated that 70% funds will be used to provide salaried employment linked training, and the remaining 30% for self-employment linked training. The training providers for placement linked skill training will give a 75 percent placement guarantee for the trained youth. Placement for youth will be provided all over the country, within J&K and outside. Under SEE J&K Scheme, different training strategies will be used for diverse groups of youth- school dropouts, dropouts of XII class level and those who have had college education.

The J&K Scheme will follow a bottom-up approach, tailored to move the J&K youth from the unorganized to the organized labour market and generate self-employment. The scheme in the first year upto March 2012 was treated as a year of experiment.

Special Industry Initiative (SII-J&K)

J&K has a large talent pool of youth who are well educated but are unable to find employment due to lack of soft skills or lack of practical/hands-on training. To engage the youth, one initiative could be to identify 10-20 companies across industry sectors to partner with an educational institution and run special training programs to enhance employability of 8000 youth per annum in J&K over a five year period. This would translate to 40,000 youth in J&K becoming employable in various sectors across India. This could be operationalized through a scheme to be executed in the PPP mode with 50:50 cost-sharing between the government and the private sector. The companies would organize training in different sectors of industry with the training duration being determined by the needs of the particular sector. A parallel exercise would be initiated to promote self-employment of Kashmiri youth. The local institutional partners who have agreed to participate are Kashmir University and the Islamic University for Science & Technology. A specific scheme to do this was submitted to the Expert Group by Infosys Technologies which envisaged the creation of a Special Training Program (STP) in collaboration with IIIT Bangalore to enhance the employability of science and engineering graduates in J&K to become "Software Industry Ready" and thus "Employable" by providing technical and behavioral skills relevant to the field of IT. To increase the access of the youth to educational opportunities the Expert Group recommends four initiatives - first, a Special Scholarship Scheme for J&K (SSS J&K), second, faculty development programmes and third, initiative by Delhi Public School and fourth, special initiatives by Indira Gandhi National Open University (IGNOU) for J&K.

Special Scholarship Scheme for J&K (SSS-J&K)

(i) The state must increase the number of institutions of higher education in J&K but in the short run there is a need to encourage the J&K youth to take advantage of the educational opportunities in the rest of the country. One way to do this is to give financial support through a special scholarship scheme for J&K (SSS J&K). On the one hand, the scholarships would enable the youth to optimize their full academic potential and turn to productive activities, while on the other they would give the J&K youth an opportunity to interact and bond with their counterparts from the rest of the country. The scholarship scheme, which is in addition to the existing schemes, would be applicable for courses in all Government Colleges/Universities, Engineering Institutions, Medical Colleges and some select private institutions to be identified by the government on the basis of some objective criteria. Students from J&K who get admission in these institutions through the normal selection process would be eligible for scholarships, subject to a parental income ceiling of Rs 4.5 lakhs per annum. **The Expert Group recommends that 5000 scholarships per annum may be awarded. Out of the total, 4500 scholarships (90%) could be for general degree courses, 250 for engineering (5%) and 250 for medical studies (5%). This will benefit 25,000 students.** Besides, the state government must also take active steps to utilize the existing government scholarship schemes.

(ii) If the capacity of the educational institutions in J&K is to be built up, it is essential to enhance the faculty skill set. One important dimension to this is the interaction of the academicians with the industry to understand their expectations of entry level student skills. An interesting example of this connect is the Faculty Enhancement Programmes (FEP) conducted by the Infosys Development Centres which have trained 4900 faculty members from engineering institutions. The other initiative is by the Directorate General Employment and Training (DGET) which has conducted 'Training of Trainers' programmes in ITI's. The state must actively leverage these programmes to expand their scope in J&K.

(iii) Ministry for Minority Affairs (IC) has made a suggestion that private schools and educational institutions could be persuaded to accommodate children from Jammu and Kashmir. An offer to (a) bring together representatives of schools and academic institutions to make a commitment and (b) persuade the Delhi Public School and the 150 odd schools that carry the name to set aside as many seats as are required to meet such a commitment.

(iv) IGNOU, a pioneer in open and distance education has a large presence in J&K and has helped a number of students to resume their education in places that have been adversely affected by the disturbances. IGNOU has agreed to launch an interactive platform for registering students in J&K for job placements. They will establish Regional Placement Cells (RPC) in Srinagar and Jammu which will provide a platform for prospective employers to communicate with job seekers of Jammu, Srinagar and Leh through virtual job portal, job fairs, placement drives and walk-ins, provide career specific counselling and guidance, carry out competency mapping of all job aspirants, identify skill gaps and assess and certify existing skills of the youth for vertical career mobility and lateral professional movements. The RPC would have members from local educational institutions, IGNOU centres, industry representatives and students and will forge partnerships with the J&K Entrepreneurship Development Institute and various Chambers of Commerce and Industries. Moreover IGNOU will also enrol youth from J&K in an Ayurvedic Therapy Training Programme which is currently being run for the North East states.

TRAINING

(i) Training Content: The Project Implementation Agency (PIA) has to ensure appropriate content, with inputs from the industry to ensure employability as per current industry practices. Course/curriculum should preferably be designed jointly with prospective employers/industry. Training and course content into local languages has to be ensured to enable better absorption by the youth who may not have exposure to English.

(ii) Skill sets: The objective of the program is to impart skills necessary for regular employment, so that the initial salary is not less than the prescribed minimum wages. In addition to technical skills, soft skills are also to be imparted to beneficiaries to face transition challenges of moving from an agrarian backdrop to the industry environment.

(iii) Training Partners: Partnership with training agencies and employers which have aptitude and capability to conduct training and placement of youth after certification acceptable to the industry is solicited.

(iv) Course Duration: The course duration will range from 1-3 to 9 months. Courses of short duration of up to three months will be preferred so that the opportunity cost of being away from productive work opportunities during training period are minimized.

(v) Certification and Assessment of trainees: Independent certification and assessment by third party agencies acceptable to the industry or employers is mandatory to ensure high quality standards and employment.

(vi) Trainee accommodation: Wherever necessary, boarding & lodging facilities are to be provided to the trainees by the PIA so that youth in remote locations can be covered. In other cases, trainees are to be provided with to and fro transport and food.

(vii) Mobilization and Selection of Trainees: All the trainees in the age group of 18-35 years with requisite aptitude depending upon the trade or job requirements are to be selected from families, as per the list maintained by the District Employment and Counselling Center/ State Government. In addition, the PIA will take appropriate awareness and publicity campaign in local electronic/print media, conduct road shows, and organize meetings for spreading awareness of the scheme and for enrolling youth.

(viii) Preliminary Screening of Candidates: The trainees mobilized have to be put through an assessment process or other basic screening tests to assess the need and aptitude that are fundamental to the trades in which training is to be imparted and also to reduce midcourse/ post training dropout of candidates before placements.

(ix) Attendance and Identification of Trainees: Biometric devices will be installed to monitor attendance. Each trainee will be provided a Unique Identification (UID) card to avoid double counting and overlapping.

(The article is a compilation by the editorial team of Employment News.)

TAXATION-CONCEPTS AND...

Continued from page1

from all Central taxes – excluding the amount collected from Cesses, Surcharges and taxes of Union Territories, and an amount equivalent to the cost of collection of central taxes – is considered as the shareable / divisible pool of Central tax revenue. In the recommendation period of the 13th Finance Commission (from 2010-11 to 2014-15), 32 percent of the shareable / divisible pool of Central tax revenue is transferred to States every year and the Centre retains the remaining amount for the Union Budget.

Tax-GDP Ratio

Gross Domestic Product (GDP) is an indicator of the size of a country's economy. In order to assess the extent of government's policy interventions in the economy, some of the important fiscal parameters, like, total expenditure by the government, tax revenue, deficit etc. are expressed as a proportion of the GDP. Accordingly, we need to pay attention to a country's tax-GDP ratio to understand how much tax revenue is being collected by the government as compared to the overall size of the economy.

India's Total Tax- GDP Ratio
(Centre and States combined) (Figures in %)

YEAR	TAX-GDP RATIO	DIRECT TAXES-GDP	INDIRECT TAXES-GDP
2001-02	13.39	3.11	10.28
2002-03	14.08	3.45	10.63
2003-04	14.59	3.86	10.73
2004-05	15.25	4.23	11.02
2005-06	15.91	4.54	11.37
2006-07	17.15	5.39	11.77
2007-08	17.45	6.39	11.06
2008-09	16.26	5.83	10.43
2009-10	15.50	5.84	9.66
2010-11 (RE)	16.46	5.87	10.60
2011-12 (BE)	16.64	5.99	10.65

Note: RE – Revised Estimate, BE – Budget Estimate;
Source: Indian Public Finance Statistics 2011-12, Min. of Finance, Govt. of India

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(The author is with Centre for Budget and Governance Accountability (CBGA), New Delhi based policy research and advocacy organisation. e-mail; happy@cbgaindia.org)

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Employment News
East Block-IV, Level-5
R.K. Puram, New Delhi-110066

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