

## **What if you don't have to pay taxes in India?**

### **What if India becomes a tax free country?**

No doubt India has one of most complicated income tax system. Being a CA student it will definitely reduce your syllabus of taxation which is hard nut to crack for many students. As a taxpayer in India, they will definitely find it exciting because they will be free from all legal documentation.

Keeping all this fairy tales and jokes asides let's dive into what practical consequences it will have on our country. Tax is key source of income for every country. A failure to pay taxes in a timely manner is punishable by law. Taxation system basically transfers a part of wealth of households or businesses to the government.

### **THIS IS HIGHLY DEBATABLE TOPIC**

There are many countries with zero income tax rates. These countries are generally situated in oil rich gulf region. UNITED ARAB EMIRATES is one among those; it is highly rich in natural resources like oil and its free trade. Other than this Bahrain, Brunei, Bermuda, Monaco, Oman, Maldives, Bahamas are also some countries where people live tax free. Since most of them are oil producer, so around 90% of its revenue comes from oil and gas industry.

Apart from this many countries like the Bahamas and Maldives are popular destinations for tourist, tourism bring plenty of money for their government, so they can allow their residents to live there tax free.

TAX is one of major source of income of revenue for the government of India. Apart from tax, non-tax revenue is the recurring income earned by the government from sources other than taxes. Major sources among this are interest, dividends, fees, penalties and profits received from public sector companies. Direct tax covers 51.3% of total revenues in 2016-2017. After the introduction of GST in July 2017, now indirect taxes cover almost 28.46% of total revenue.

If Indian government also decides to abolish income tax laws, some major changes will be seen in our economy.

- This will increase circulation of money in the economy by large percentage. If tax rates are high, customers are more cautious in their

expenditures with no tax, people will likely to spend more than before leading to increase in money supply in the economy.

- Developing country like India, where tax is one of major source of income, making it tax-free can be the worst scenario a government can imagine.
- Individuals or business firms will get benefit of tax saving also no legal compliances to be followed, no extra charges required to be paid, or no extra paperwork.
- Lending power of banks will also increase because BLACK MONEY (money on which tax is not declared) can now be freely used this will increase deposits in bank which will improve their lending power.
- Due to few taxation compliances, foreign investors will invest in India. Companies like Apple, Nike, Goldman Sachs are already utilizing their resources in countries that are tax-free.

Income tax is often seen as burden by middle class. Paying a portion of your income that you have earned looks inappropriate but it has some advantages.

Amount paid as income tax is used for welfare of society, construction of public infrastructure, health, education, housing, scientific research and many other activities.

### **DISADVANTAGES OF NO TAX**

**Income tax is progressive in nature and indirect taxes are regressive. The rich pay tax and this money is used to benefit society, including weaker sections of society who are incapable of paying taxes.**

**Indirect tax is regressive in nature, "YOU BUY, YOU PAY".** If government abolish direct taxes, we as COMMON PEOPLE can see huge rise in prices because the government will try to generate its revenue from indirect taxes as a consequence of which they will charge high taxes on consumer goods. It will have negative effect on consumers.

This will also increase the income gap in our country. Rich will grow more and become rich whereas poor and middle class will suffer by paying indirect taxes. While the rich will be free from paying direct taxes.

All this is based on hypothetical situations. Country like India which has high population and the income gap among rich and poor is huge it is slightly tough to make it tax-free.

Source : Caclubindia