

TITLE PAGE

COMPARATIVE STUDY OF INDIAN AND UNITED STATES TAX SYSTEM

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A PROJECT REPORT

Submitted to the

FACULTY OF MANAGEMENT SCIENCES

in partial fulfillment for the award of the degree

of

MASTER OF BUSINESS ADMINISTRATION



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Month, Year
July, 2009

BONAFIDE CERTIFICATE

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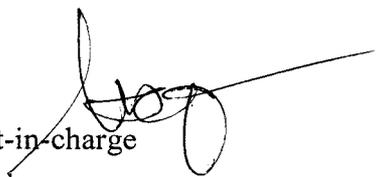
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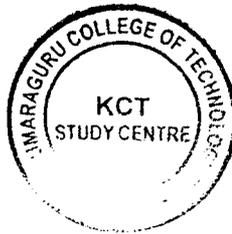
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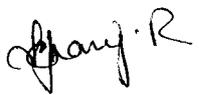
ABSTRACT

The system of any Government body of a country has become most essential part of revenue system of the country that is directly proportional to its economic growth and self sustainability.

In this project, we have made a study and analysis of tax structure, of economically grown country like United States of America and emerging country India.

The study and analysis details the different types of taxes levied on their citizen, their norms, collection procedures, amount of Income with respective to various categories, periods of collection, and utilization of funds for their development activities.

The detailed work enabled us to chart out various comparisons on taxing system of both the countries, their requirements and achievements. The recent changes in the system are also analyzed to prove their effectiveness and efficiency.


DHANYA R

ACKNOWLEDGEMENT

I wish to express my deep sense of gratitude to **Director**, Center of Distance Education, Anna University, Chennai for his guidance and support throughout the year.

I wish to record my heartfelt thanks to the **Dr.S.Sadhasivam**, Co-coordinator, KCT Study Center for the support extended by him throughout the execution of the project.

I wish to extend my sincere gratitude to **Mr.A.Senthil Kumar**, Counselor-MBA Programme, KCT Study Center for his timely communications and encouragement during this course of this project.

I would like to thank the Project-In-Charge, **Prof.Dr.S.V.Devanathan** for all the assistance and suggestions provided by him during the execution of the project.

It gives me pleasure in extending my gratitude to my project guide **Ms.S.Sangeetha** for her co-operation and willingness which enhanced to complete the project successfully.

I also like to thank **Mr.Karthikeyan**, Director, G.K Management India Services Ltd for the valuable information and assistance provided by him towards the project.

Finally, I thank all my family members, friends and relatives for their constant support and encouragement, which remains a major cause for my success.

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CHAPTER 1

INTRODUCTION

1.1 RESEARCH BACKGROUND

Tax:

A fee charged ("levied") by a government on a product, income, or activity.

History:

The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from the time document that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis (chapter 47, verse 24 - the New International Version), it states "But when the crop comes in, give a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children." Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh. A share (20%) of the crop was the tax.

In India, Islamic rulers imposed jizya starting in the 11th century. It was abolished by Akbar. Quite a few records of government tax collection in Europe since at least the 17th century are still available today. But taxation levels are hard to compare to the size and flow of the economy since production numbers are not as readily available. Government expenditures and revenue in France during the 17th century went from about 24.30 million livres in 1600-10 to about 126.86 million livres in 1650-59 to about 117.99 million livres in 1700-10 when government debt had reached 1.6 billion livres. In 1780-89 it reached 421.50 million livres.

Taxation as a percentage of production of final goods may have reached 15% - 20% during the 17th century in places like France, the Netherlands, and Scandinavia. During the war-filled years of the eighteenth and early nineteenth century, tax rates in Europe increased dramatically as war became more expensive and governments became more centralized and adept at gathering taxes. This increase was greatest in England, Peter Mathias and Patrick O'Brien found that the tax burden increased by 85% over this period.

Another study confirmed this number, finding that per capita tax revenues had grown almost sixfold over the eighteenth century, but that steady economic growth had made the real burden on each individual only double over this period before the industrial revolution. Average tax rates were higher in Britain than France the years before the French Revolution, twice in per capita income comparison, but they were mostly placed on international trade. In France, taxes were lower but the burden was mainly on landowners, individuals, and internal trade and thus created far more resentment.

Taxation as a percentage of GDP in 2003 was 56.1% in Denmark, 54.5% in France, 49.0% in the Euro area, 42.6% in the United Kingdom, 35.7% in the United States, 35.2% in The Republic of Ireland, and among all OECD members an average of 40.7%.

Purpose of taxation:

Taxation has four main purposes or effects: Revenue, Redistribution, Repricing, and Representation.

1) Reason:

The main purpose is revenue: taxes raise money to spend on roads, schools and hospitals, and on more indirect government functions like market regulation or legal systems. This is the most widely known function.

2) Redistribution:

A second is redistribution. Normally, this means transferring wealth from the richer sections of society to poorer sections.

3) **Re-pricing:**

A third purpose of taxation is re-pricing. Taxes are levied to address externalities: tobacco is taxed, for example, to discourage smoking, and many people advocate policies such as implementing a carbon tax.

4) **Representation:**

A fourth, consequential effect of taxation in its historical setting has been representation. The American revolutionary slogan "no taxation without representation" implied this: rulers tax citizens, and citizens demand accountability from their rulers as the other part of this bargain. Several studies have shown that direct taxation (such as income taxes) generates the greatest degree of accountability and better governance, while indirect taxation tends to have smaller effects.

Economics of taxation:

In economic terms, taxation transfers wealth from households or businesses to the government of a nation. The side-effects of taxation and theories about how best to tax are an important subject in microeconomics. Taxation is almost never a simple transfer of wealth. Economic theories of taxation approach the question of how to minimize the loss of economic welfare through taxation and also discuss how a nation can perform redistribution of wealth in the most efficient manner.

Deadweight costs of taxation:

For goods supplied in a perfectly competitive market, tax reduces economic efficiency, by introducing a deadweight loss. In a perfect market, the price of a particular economic good adjusts to make sure that all trades which benefit both the buyer and the seller of a good occur. After introducing a tax, the price received by the seller is less than the cost to the buyer. This means that fewer trades occur and that the individuals or businesses involved gain less from participating in the market. This destroys value, and is known as the 'deadweight cost of taxation'.

Double dividend taxes

In some cases where the economy is not perfectly competitive, the existence of a tax can *increase* economic efficiency. If there is a negative externality associated with a good, meaning that it has negative effects not felt by the consumer, then the free market will trade too much of that good. By putting a tax on the good, the government can increase overall welfare as well as raising revenue in taxation. This is known as a 'double dividend'.

There are a wide range of goods where there is, or is claimed to be, a negative externality. Polluting fuels (like petrol), goods which incur public healthcare costs (such as alcohol or tobacco), and charges for existing 'free' public goods (like congestion charging) all offer the possibility of a double dividend. This type of tax is a Pigovian tax, sometimes colloquially known as a 'sin tax'. It is worthwhile noting that taxation is not necessarily the only, or the best, method of dealing with negative externalities.

Transparency and simplicity

Another concern is that the complicated tax codes of developed economies offer perverse economic incentives. The more details of tax policy there are, the more opportunities for legal tax avoidance and illegal tax evasion; these not only result in lost revenue, but involve additional deadweight costs: for instance, payments made for tax advice are essentially deadweight costs because they add no wealth to the economy. Perverse incentives also occur because of non-taxable 'hidden' transactions; for instance, a sale from one company to another might be liable for sales tax, but if the same goods were shipped from one branch of a corporation to another, no tax would be payable.

To address these issues, economists often suggest simple and transparent tax structures which avoid providing loopholes. Sales tax, for instance, can be replaced with a value added tax which disregards intermediate transactions.

Tax incidence

Economic theory suggests that the economic effect of tax does not necessarily fall at the point where it is legally levied. For instance, a tax on employment paid by employers will impact on the employee, at least in the long run. The greatest share of the tax burden tends to fall on the most inelastic factor involved - the part of the transaction which is affected least by a change in price. So, for instance, a tax on wages in a town will (at least in the long run) affect property-owners in that area.

Costs of compliance

Although governments must spend money on tax collection activities, some of the costs, particularly for keeping records and filling out forms, are borne by businesses and by private individuals. These are collectively called costs of compliance. More complex tax systems tend to have higher costs of compliance. This fact can be used as the basis for practical or moral arguments in favor of tax simplification (see, for example, FairTax), or tax elimination (in addition to moral arguments described above).

1.2 NEED OF THE STUDY:

The tax collection of the nation is directly linked to the economic growth of the country as the Collection and utilization of funds is a cycling process i.e. when economy grows the number of persons under the tax structure becomes more. Hence there is a need to know how the tax structure is framed in two different countries so that the merits and demerits can be compared and if needed it can be framed and implemented as per its adaptability to the nation.

This study is basically to analyze the Indian and United States tax system. The tax structures, the various taxes levied by the government, the revenue collection and its spending nature will be compared to differentiate the uniqueness in both the structures and also in what ways it can modified and adapted.

1.3 OBJECTIVE:

The basic objective of this project is to compare the two tax system namely Indian tax system and US tax system and sort out their differences to show in what areas they have uniqueness in their systems and how it can be related to the other system.

1.4 SCOPE:

To study, analyze and differentiate tax system of both countries under the purview of developing and developed nation.

1.5 DELIVERABLES:

This project is aimed to show the various differences between the tax structures of two countries namely Indian and US tax structures, the various taxes levied by both the countries, its revenue and utilization of funds and the recent implementation made by the governments for its betterment.

CHAPTER 2

LITERATURE SURVEY

2.1 LITERATURE REVIEW:

1. A Study of the Indian Tax System - Part I and II by Sunil Thacker Partner, TLG, Dubai:

In part I of the series, the Article examine tax statute as is prevalent in the Republic of India with a special emphasis on the tax system in general and powers of tax officers.

Part II addresses legalities involved in taxation of information technology, e-commerce and biotech companies considering issues involved in international tax including tax treaties.

A brief examination of history of the development of technology shows that technical advances sometimes outstrip the development of legal systems. This often forces basic principles to be re-examined in light of the new developments. Advances in fields of Information technology, bio technology, ecommerce and outsourcing, for example, have created a host of celebrated legal confusions and debates in recent years. The article outlines main issues in the international taxation of e-commerce transactions with a special emphasis on and South Asian and Middle East jurisdictions.

2. The Tax System in India: Could Reform Spur Growth? By HÃ©lÃ©ne Poirson

This paper assesses the effects of India's tax system on growth, through the level and productivity of private investment. Comparison of India's indicators of effective tax rates and tax revenue productivity with other countries shows that the Indian tax system is characterized by:

- (1) a high dependence on indirect taxes,
- (2) low average effective tax rates and tax productivity, and
- (3) high marginal effective tax rates and large tax-induced distortions on investment and financing decisions.

The paper finds that the most recently proposed package of reforms would improve tax productivity and lower the marginal tax burden and tax-induced distortions. But firms that rely on internal sources of funds or face problems borrowing would continue to face high marginal tax rates.

3) Reforming the U.S. Corporate Tax System to Increase Tax Competitiveness, by Jason J Fitchner:

This study has discussed how the current U.S. corporate tax system is biased against saving and investment, inefficient, unfair and overly complex. The U.S. system for taxing corporations is not tax competitive with many other nations. As a result, the U.S. has seen a decline in receipts from the corporate income tax as a share of total federal receipts. Further, some domestic companies are relocating economic content overseas and foreign multinational firms are buying domestic companies.

Unless broad and significant corporate tax reforms are enacted it is likely that U.S. tax competitiveness of will continue to suffer. The results of inaction are undesirable: potential loss of American jobs, foreign outsourcing of economic content, sale of U.S. companies to foreign multinational companies, general erosion of the corporate tax base and continuation of harmful tax policies that are biased against saving, investment and economic growth.

CHAPTER 3

METHODOLOGY

This is descriptive type of project as it is a general study about the workings of two tax systems. The data collected are secondary data with the help of internet and journals. The tools used for the study is comparative statements of both the tax systems.

Indian Tax System

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 INDIAN TAX SYSTEM:

4.1.1 Introduction:

India has a well developed tax structure with the authority to levy taxes divided between the Union Government and the State Governments. The Union Government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like custom duties, excise duties and central sales tax. The states are empowered to levy state sales tax apart from various other local taxes like entry tax, octroi etc.

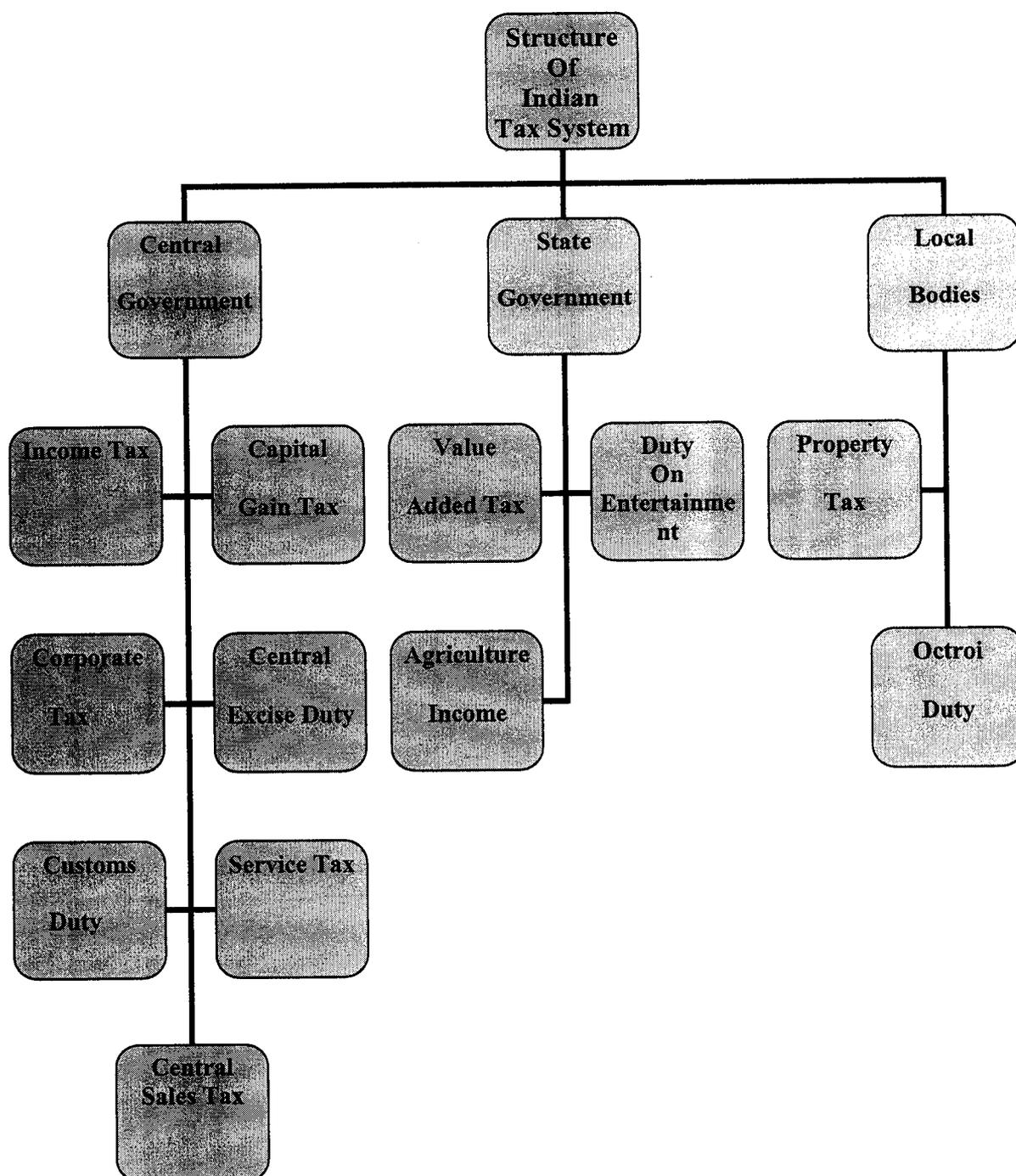
Taxation has always played an important role in the formulation of the government's industrial policy. One of the objectives of the recent economic reforms is the India has a well developed tax structure with the authority to levy taxes divided between the Union Government and the State Governments.

In 1991, the government set up a special committee, the Raja Chelliah Committee on Tax Reforms, to review the country's tax system. Its mandate was to make recommendations to meet the tax system more elastic and broad based, and to suggest means required for simplifying existing laws and regulations to facilitate better enforcement and compliance. The recommendations made by this committee envisaged simplified procedures and a rationalized rate structure. The government has implemented a large number of recommendations such as:

- drastic reduction in customs and excise duties
- lowering of corporate tax rates
- removing distinction between widely held and closely held companies

4.1.2 Structure Of Indian Tax System:

4.1 Chart showing the structure of Indian Tax System:



4.1.3 Income Tax:

- The taxable income of the assessee is sorted and computed under five categories known as the Heads of Income namely Salary, House Property, Profit in Business or Organization, Capital Gains and Other Sources.
- The Tax Deduction at Source is the Income Tax that is subtracted at the beginning of income by the employer or the taxpayer to pay to the government, following certain limitations and conditions.
- The Tax Collection at Source is that type of Income Tax that is collected by certain goods-seller at the specified rates on the purchase of those goods. It is then remitted on the behalf of the buyer to the governmental treasury.

PERSONAL TAX RATES FOR 2009-10

4.1 Table showing the personal tax rates for the year 2009-10

Sl.No	Category	Nil	10%	20%	30% and Above
1	Men	Rs.0- Rs.1,60,000	Rs.1,60,001 -Rs. 3,00,000	Rs.3,00,001 – Rs.5,00,000	Rs.5,00,001 upwards
2	Women	Rs.0 – Rs.1,90,000	Rs.1,90,001- Rs.3,00,000	Rs.3,00,001 – Rs.5,00,000	Rs.5,00,001 upwards
3	Senior Citizens	Rs.0 – Rs.2,40,000	Rs.2,40,001 – Rs.3,00,000	Rs.3,00,001 – Rs.5,00,000	Rs.5,00,001 upwards

Note: -

- Education cess is applicable @ 3 per cent on income tax, inclusive of surcharge if there is any.
- A marginal relief may be provided to ensure that the additional Income Tax payable, including surcharge, on excess of income over Rs 1,000,000 is limited to an amount by which the income is more than this mentioned amount.
- Agricultural income is exempt from income-tax.
- Generally, the time for tax filing in India has been fixed as July 31 every year, while March 31 is considered the end of each fiscal year.

Penalties Suffered in Tax Filing in India:

- According to the requirements of tax filing in India, in case the tax payer is not able to file his tax return on time for some reason, he will be required to bear a penal interest rate of 1% for every single month of delay and in case the tax return is filled after 31st March of the next year, the tax payer is required to pay a penalty amount as high as Rs. 5,000 in addition to the penal interest for all the months of delay.

4.1.4 Capital Gain Tax

- As per Indian Income Tax laws, a **capital gain tax** is a voluntary tax payable on the sale of assets, investments, capital accumulation, and productivity.
- **Short-term capital gain** related to sale of property, the gained amount needs to be added to your total annual income. Then you'll be need to pay **capital gain tax**, depending on the total taxable amount.
- **Long-term capital gain** related to sale of property, factors such as inflation are usually taken into consideration. The seller of the property needs to pay a tax not just on the real capital gain, but also on the projected gain as a result of inflation.

4.1.5 Corporate Tax

A company has been defined as a juristic person having an independent and separate legal entity from its shareholders. Income of the company is computed and assessed separately in the hands of the company. However the income of the company which is distributed to its shareholders as dividend is assessed in their individual hands.

Residence of a company:

A company is said to be a resident in India during the relevant previous year if:

1. it is an Indian company
2. if it is not an Indian company then, the control and the management of its affairs is situated wholly in India

A company is said to be non-resident in India if it is not an Indian company and some part of the control and management of its affairs is situated outside India.

Corporate Tax Rates for 2009-10:

4.2 Table showing the Corporate Tax Rates for the year 2009-10

Particulars	Amount	Flat Rate	Cess	Total Tax Rate
Domestic Companies	>Rs. 1 Crore	30%	3%	30.9%
Domestic Companies	<Rs. 1 Crore	30% + (10% Surcharge)	3%	33.99%
Foreign Companies		40%	3%	41.2%

4.1.6 Custom Duty

- Duties of customs are levied on goods imported or exported from India at the rate specified under the customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force.
- The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods

Recent Proposals in 2009-10 Budgets:

4.3 Table showing the recent budget proposals of Custom Duty for the year 2009-10:

Items Taxed	Percentage of Tax
Set Up Box	5%
Unworked Corals	NIL
Bio-Diesel	2.5%
Specified Machinery for Tea, coffee	5%
Cotton Waste	10%
Wool Waste	10%
Rock Phosphate	2%
Concrete batching plants of capacity 50 cum per hour or more	7.5%

- List of specified raw materials/inputs imported by manufacturer-exporters of sports goods which are exempt from customs duty, subject to specified conditions, to be expanded by including five additional items.
- List of specified raw materials and equipment imported by manufacturer-exporters of leather goods, textile products and footwear industry which are fully exempt from customs duty, subject to specified conditions, to be expanded.
- Customs duty on serially numbered gold bars (other than tola bars) and gold coins to be increased from Rs.100 per 10 gram to Rs.200 per 10 gram. Customs duty on other forms of gold to be increased from Rs.250 per 10 gram to Rs.500 per 10

gram. Customs duty on silver to be increased from Rs.500 per Kg. to Rs.1000 per Kg. These increases also to be applicable when gold and silver (including ornaments) are imported as personal baggage.

- Customs duty on inflatable rafts, snow-skis, water skis, surf-boats, sail-boards and other water sports equipment to be fully exempted

4.1.7 Central Excise Duty

- Central excise revenue is the biggest single source of revenue for the Government of India.
- The Union Government tries to achieve different socio-economic objectives by making suitable adjustments in the scope and quantum of levy of Central Excise duty.

Recent Proposals in 2009-10 Budgets:

4.4 Table Showing the Excise Duty Budget proposals for the year 2009-10:

Items Taxed	Percentage of Tax
Petrol driven Trucks/Lorries	8% + 10,000
Special Boiling Point spirits	14%
Naphtha	14%
Manmade fibre and yarn	8%
Polyester chips	8%
Acrylonitrile	8%
branded articles of jewellery	NIL

- The ad valorem component of excise duty of 6% on petrol intended for sale with a brand name to be converted into a specific rate. Consequently, such petrol would now attract total excise duty of Rs.14.50 per litre instead of 6% + Rs.13 per litre.
- The ad valorem component of excise duty of 6% on diesel intended for sale with a brand name to be converted into a specific rate. Consequently, such diesel would now attract total excise duty of Rs.4.75 per litre instead of 6% + Rs.3.25 per litre.
- The scheme of optional excise duty of 4% for pure cotton to be restored.
- An optional excise duty exemption to be provided to tops of manmade fibre manufactured from duty paid tow at par with tops manufactured from duty paid staple fibre.
- Excise duty exemption on recorded smart cards and recorded proximity cards and tags to be made optional. Manufacturers have the option to pay the applicable excise duty and avail the credit of duty paid on inputs.
- On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.
- An optional excise duty exemption to be provided to tops of manmade fibre manufactured from duty paid tow at par with tops manufactured from duty paid staple fibre.
- Excise duty exemption on recorded smart cards and recorded proximity cards and tags to be made optional. Manufacturers have the option to pay the applicable excise duty and avail the credit of duty paid on inputs.
- On packaged or canned software, excise duty exemption to be provided on the portion of the value which represents the consideration for transfer of the right to use such software, subject to specified conditions.

4.1.8 Service Tax

- As per the Finance Act of 1994, all service providers in India, except those in the state of Jammu and Kashmir, are required to pay a Service Tax in India. The provisions related to Service Tax came into effect on 1st July, 1994.
- Service Tax in India is regulated and administered by the Central Excise Commissionerates who work directly under the Department of Revenue, Ministry of Finance, Central Board of Excise and Customs, and the Government of India.

A Few Taxed Services:

- Telephone
- Stock broking
- General Insurance
- Advertising agencies
- Courier agencies
- Consulting engineers
- Air travel agents
- Tour operators
- Architects

4.1.9 Central Sales Tax

- Central Sales tax is generally payable on the sale of all goods by a dealer in the course of inter-state Trade or commerce or, outside a State or, in the course of import into or, export from India.

Inter- State Trade:

According to S3, a sale or purchase shall be deemed to take place in the course of interstate trade or commerce in the following cases:

- when the sale or purchase occasions the movement of goods from one State to another;
- When the sale is effected by a transfer of documents of title to the goods during their movement from one State to another.

Exception in the sales taxes

- Sales to resellers such as wholesalers and retailers that have a valid state resale certificate.
- Sales to tax-exempt institutions such as schools or charities
- Central Sales tax reduced to 1 per cent against Form C. In the absence of Form C the Value Added Tax levied in that particular state will be applicable.

4.1.10 Value Added Tax:

- Value Added Tax is the tax levied on sale of goods across the country by the respective state governments.
- The Value Added Tax is levied uniformly across the country in various states on the following tax rates:
 - 1 %
 - 2 %
 - 4 %
 - 12.5 %
- While all selling goods fall in one of the above categories of tax rates, for most of them uniformity is maintained across the states. However there still exist certain variations of tax rates between the states for the same goods.

Items Covered in Indian Value Added Tax:

4.5 Table showing the items covered in Indian Value Added Tax:

550 items covered	270 items of basic needs, like medicine, drugs, agro & industrial inputs, capital & declared goods 4%	Rest 12.5%. Gold & silver jewellery - 1%
Tea-producing states options either percentage	Petrol, diesel, liquor, lottery not included *	Sugar, textile & tobacco excluded for one year

Note: * Some states like Delhi have imposed VAT on diesel at 20%, which is higher than the 12% sales tax charged earlier. Similarly, Delhi imposed Value Added Tax on LPG at 12.5%, which is also higher than the previous sales tax rate of 8 percent.

4.1.11 Agricultural Income Tax:

Tax Calculation for Agriculture Income

- If a person earns only agricultural income, then the income is not taxable. It is fully exempt. For example if total agricultural income is Rs.340000 per year and there is no other source of income. In this case they are not required to pay any tax and file the tax returns.
- If a person has agricultural income and other sources of income, then he is required to file the returns and show the agricultural income. Even if the total income is below the taxable income.

4.1.12 Duty on Entertainment:

- **Entertainment tax in India** signifies the tax paid by the entertainment industry in India. The entertainment tax in India is usually applicable for large-scale entertainment shows, private festivals that are sponsored, movie tickets, video game, amusement parks among others.

Entertainment activities include commercial movie/theater shows, games, amusement parks, exhibitions, celebrity stage shows, any kind of sports such as horse racing, and exhibitions. The entertainment tax department looks after the tax payable for the entertainment activities being performed in various places across the country. The entertainment tax department is located in Delhi and works under the stipulation of The Delhi Entertainment and Betting Tax Act, 1996. The organizers or proprietors of the entertainment shows are responsible for the entertainment tax in India.

- Entertainment tax is levied between 20-35% of charges collected by way of subscription or installation or any other charge for entertainment. An additional surcharge of 10% is also levied.

4.1.13 Property Taxes:

- Property tax is a tax that an owner of property (usually real estate) is liable to pay. The amount of tax is estimated on the value of the property being taxed (advalorem tax).
- Property, again consists of three entities:
 1. Land
 2. Improvements to Land (immovable man made things)
 3. Personalty (movable man made things)
- Property tax in India is paid on a year to year basis.

Features of Property Tax India

Indian Property Tax bears the following characteristics:

- In India, the actual owners of **property** are liable to pay municipal taxes which are in contrast to that in the United Kingdom, where the tenant is liable to do so.
- Generally, the **property tax** is levied on the basis of reasonable rent at which the **tax payer** can claim his ownership rights over the property.
- The '**reasonable rent**' can be '**actual rent**' if it is found to be fair and reasonable. In the case of non-rented properties, the rental value is to be estimated on the basis of **local tax rates**.

4.1.14 Octroi Duty:

- Octroi is a local tax collected on various articles brought into a district for consumption
- Octroi taxes have a respectable antiquity, being known in Roman times as *vectigalia*.
- As of 2008, octroi is levied in Ethiopia and in only one state of India, Maharashtra will abolish octroi soon.

*United States Tax
System*

4.2 UNITED STATES TAX SYSTEM:

4.2.1 Introduction:

Taxation in the United States is a complex system which may involve payment to at least four different levels of government and many methods of taxation. United States taxation includes local government, possibly including one or more of municipal, township, district and county governments. It also includes regional entities such as school and utility, and transit districts as well as including state and federal government.

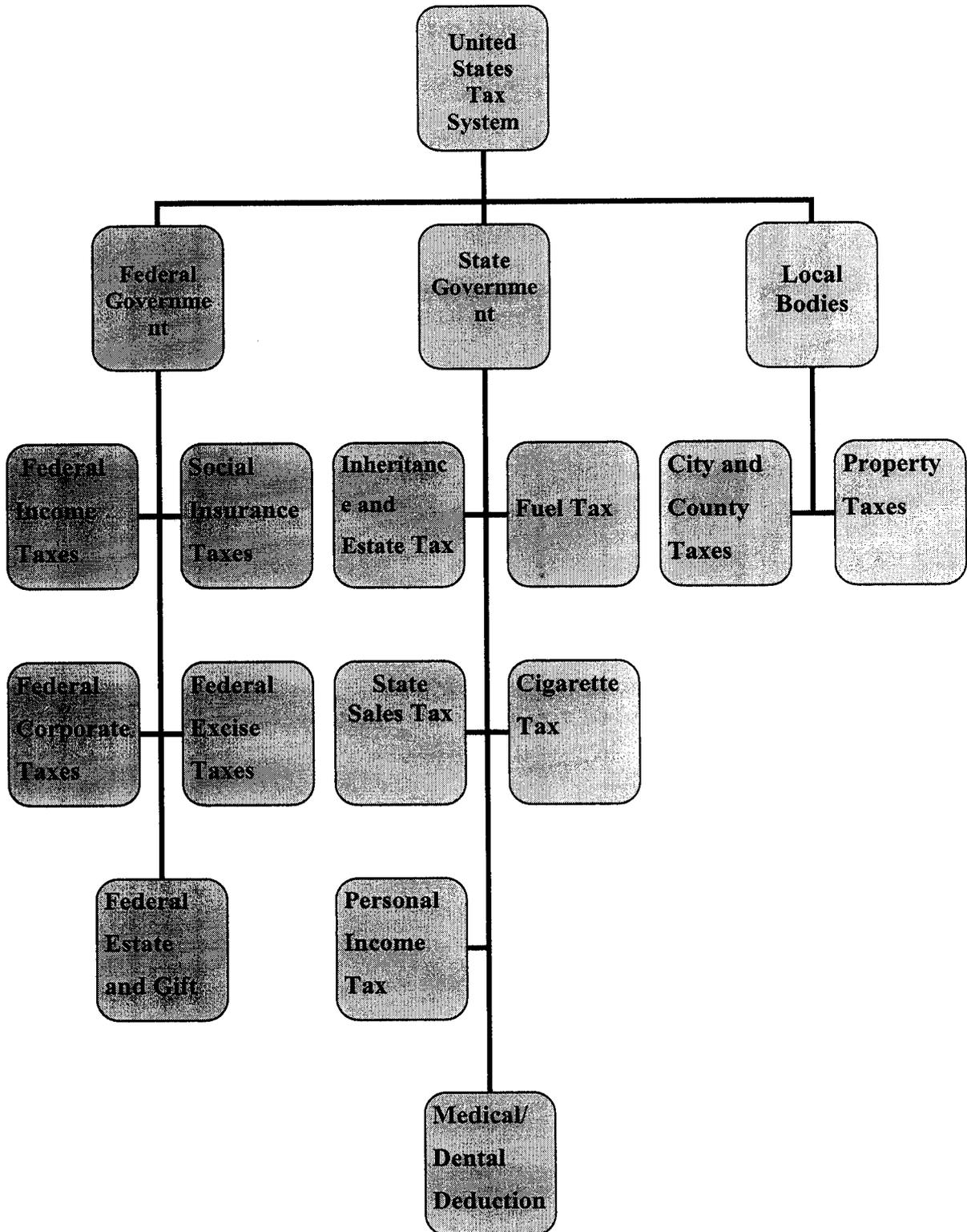
The National Bureau of Economic Research has concluded that the combined federal, state, and local government average marginal tax rate for most workers to be about 40% of income. The Tax Foundation concluded that government at all levels will collect 30.8% of the nation's income for 2008. Tax Day, the day by which tax returns are due, is usually April 15.

In general, the U.S. income tax is progressive, at least with respect to individuals that earn wage income.

"Progressivity" as it pertains to tax is usually defined as meaning that the higher a people level of income, the higher a tax rate that person pays. In the mid-twentieth century, tax rates in the United States and United Kingdom exceeded 90%. As recently as the late 1970s, the top tax rate in the U.S. was 70%. Despite the dramatic fall in the marginal tax-rate of the top-income brackets from the 1960s to the 2000s, taxes on wages, interest, and dividends have become more progressive over the past fifty years

4.2.2 Structure Of United States Tax System:

4.2 Chart showing the structure of US Tax System:



4.2.3 Federal Income Tax:

While U.S. income tax law is very complex, the underlying idea is relatively easy to understand. Simplifying greatly, gross income is all income from all sources less any exclusions. Exclusion is something that Congress has effectively said a taxpayer need not include in his or her income for tax purposes, such as employer-paid health insurance or interest from tax-exempt bonds.

For individuals, Adjusted Gross Income (AGI) is gross income less any above-the-line deductions). Above-the-line deductions are listed in and include trade or business deductions, alimony , and moving expenses. Taxable income is AGI less (1) itemized deductions or the applicable standard deduction, whichever is greater, and (2) a deduction for any allowable personal exemptions for the taxpayer, the taxpayer's spouse (if filing jointly), and the taxpayer's dependents. (In certain cases involving higher income taxpayers, the allowed personal exemptions may be reduced or even eliminated.)

Types of income:

For tax purposes, income can be divided in a variety of ways. The first division is between

- 1) Ordinary income
- 2) Capital gains.

Ordinary income includes compensation for personal services such as wages and salaries, business profit, dividends from stock shares, and interest income from invested funds while capital gain generally comes from the sale of investment property. Congress has typically shown a preference for long-term investment by having a capital gains tax rate lower than the ordinary income rate. However, only long-term capital gains get preferential treatment; short-term capital gains (from property held for one year or less) are taxed at the same rate as ordinary income. Added complications come from various distinctions within each category. For instance, qualified dividends, which were previously taxed at ordinary income rates (as non-qualified dividends currently are), are

currently taxed at long-term capital gain rates until 2011 under the Jobs and Growth Tax Relief Reconciliation Act of 2003, and within long-term capital gains, gains on certain real estate, collectibles, and small business stock each have their own tax rates. The rules for offsetting capital losses with gains (whether capital or ordinary) add further complications. In ordinary usage, when someone speaks of their "tax rate", they typically are referring to their marginal tax rate for ordinary income.

Another important distinction in types of income is income from passive activities versus non-passive activities, an attempt to curb tax shelters used by taxpayers not directly involved with an activity other than as an investor

The tax rates for 2009-10:

4.6 Table showing the income tax rates for the year 2009-10:

Marginal Tax Rate	Single	Married Filing Jointly or Qualified Widow(er)	Married Filing Separately	Head of Household
10%	\$0 – \$8,350	\$0 – \$16,700	\$0 – \$8,350	\$0 – \$11,950
15%	\$8,351– \$33,950	\$16,701– \$67,900	\$8,351 – \$33,950	\$11,951 – \$45,500
25%	\$33,951– \$82,250	\$67,901– \$137,050	\$33,951 – \$68,525	\$45,501 – \$117,450
28%	\$82,251– \$171,550	\$137,051– \$208,850	\$68,525 – \$104,425	\$117,451 – \$190,200
33%	\$171,551– \$372,950	\$208,851 – \$372,950	\$104,426 – \$186,475	\$190,201 – \$372,950
38%	\$372,951+	\$372,951+	\$186,476+	\$372,951+

Example of a tax computation

4.7 Table showing the example of tax computation

Single Tax Payer, no children, under 65 and not blind taking standard deduction.

Particulars	Amount (in \$)
Gross Income	40,000
(-) Standard Deduction	5,700
(-) Personal Exemption	3,650
Taxable Income	30,650
(8350 * 10%)	835.00
(30,650-8350)*15%	3,345.00
Total Income Tax	4,180 (10.45% Effective Tax)

Filing income taxes

- April 15 is the deadline for individual taxpayers who are required to file income tax forms to do so. The IRS has reached agreements with various private companies allowing taxpayers who earn less than \$56,000 to file taxes electronically for free.

4.2.4 Social Insurance Tax:

- Taxes for federal social insurance programs include social security, Medicaid, and Medicare.
- Social Insurance taxes are levied on salaries and wages as well as income from self-employment. For those employed by others, these taxes generally deducted directly from their paycheck.
- These deductions commonly appear as “Federal Insurance Contributions Act tax”.
- Social Insurance taxes are actually two separate taxes.
- The first is a tax of 12.4% of wages which is primarily used to fund Social Security. It will be contributed by both the employer and employee of charging 6.2% each.
- The other is a tax of 2.9% Medicare program which is again contributed both by employer and employee.
- Self-employed individuals are responsible for paying the entire share of 15.3%.

4.2.5 Federal Corporate Tax:

- Corporations must file federal tax returns that are in many ways similar to the forms individual complete.
- Corporate taxable income is defined as total revenues minus the cost of goods sold, wages and salaries, depreciation, repairs, interest paid and other deductions.
- Corporate tax rates like personal income tax rates are progressive and calculated on a marginal basis.

4.2.6 Federal Excise Tax:

- An Excise tax is a tax on the production, sale, or use of a particular commodity.
- The federal government collects excise taxes from manufacturers and retailers for the production or sale of a surprising number of products including tires, telephone services, air travel, fossil fuels (including gasoline, diesel fuel and aviation fuel) alcohol, tobacco, and firearms.
- Unlike Sales Tax, Excise taxes are normally incorporated into the price of the product.

4.2.7 Federal Estate and Gift Tax:

This tax is mostly levied to the wealthiest Americans.

- Estates valued at less than \$1 million are exempted from tax.
- The transfer of large gifts is also subject to federal taxation. Both the taxes are scheduled for temporary expiration during year 2010.

4.2.8 Inheritance and Estate Tax:

An inheritance tax is an assessment made on the portion of an estate received by an Individual.

- It differs from an estate tax which is a tax levied on an entire estate before it is distributed to individuals. It is strictly a state tax.
- Eleven states still collect an inheritance tax. They are: Connecticut, Indiana, Iowa, Kansas, Kentucky, Maryland, Nebraska, New Jersey, Oregon, Pennsylvania and Tennessee.

4.2.9 State Sales Tax:

- All states except Alaska, Delaware, Montana, New Hampshire and Oregon, collect sales taxes. Some have a single rate throughout the state though most permit local city and county additions to the base tax rate. Those states with a single rate include Connecticut, Hawaii, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, Rhode Island, Vermont, Virginia, and West Virginia.
- States with the highest sales tax (when you include weighted averages for county and city rates) are: Tennessee (9.4%), Louisiana (8.7%), Washington (8.5%), New York (8.25%), Arkansas (8.2%), Alabama (8.15%), Oklahoma (8.1%), and California (8.0%).
- Most states exempt prescription drugs from sales taxes. Some also exempt food and clothing purchases and a few also exempt non-prescription drugs.

4.2.10 Fuel Tax

- Every state collects excise taxes on gasoline, diesel fuel and gasohol. Where applicable they include sales taxes, gross receipts taxes, oil inspection fees, underground storage tank fees and other miscellaneous environmental fees. They do not include the federal excise tax which is 18.4 cents for gasoline and 24.4 cents for diesel fuel.
- Nine states permit cities or counties to impose a local tax on fuel. Taxes in some states can also vary based on the wholesale price which is adjusted quarterly.

4.2.11 Cigarette Tax

- Several states are continuing to raise excise taxes on cigarettes and other tobacco products in order to increase revenue. The rates shown do not include the federal cigarette tax of \$1.01 a pack (as of April 2009).
- New York City is the most expensive place to buy cigarettes (\$4.25). The New York state tax is \$2.75.
- Counties and cities may impose an additional tax ranging from 1 cent to \$2.00 on a pack of cigarettes. About 82% of what consumers pay for a pack of cigarettes (average cost \$4.32 - including statewide sales taxes but not local cigarette or sales taxes) ends up going to the government in taxes and other payments rather than for the cigarettes.

4.2.12 Personal Income Tax

A total of 41 states impose income taxes. New Hampshire and Tennessee apply it only to income from interest and dividends. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) do not tax personal income.

4.2.13 Medical/Dental Deductions

Most states treat health care expenses as having already been deducted from federal returns. Two states (North Dakota and Oregon) allow full deductions while Indiana doesn't permit itemized deductions on state taxes.

4.2.14 City and County Taxes:

Cities and counties in the individual states may levy additional taxes, for instance to improve parks or schools, or pay for police, fire departments, local roads, and other services, they generally require a tax payment account number. Other local governmental agencies may also have the power to tax, notably independent school districts.

Local government usually collect property taxes but may also collect sales taxes and income taxes. Some cities collect income tax on not only residents but non-residents employed in the city. This tax can even be incurred when a non-resident works temporarily in the city. For example, in 1992 the city of Philadelphia began enforcing the collection of city wage taxes on visiting baseball players who played games in Philadelphia. At least some counties levy an Occupational Privilege Tax , usually for a small amount, in some cases less than \$100/yr.

4.2.15 Property Tax:

- Taxes on land and the buildings on it are the biggest source of revenue for local governments. They are not imposed by states but by the tens of thousands of cities, townships, counties, school districts and other assessing jurisdictions.
- The state's role is to specify the maximum rate on the market value of the property, or a percentage of it, as the legal standard for the local assessors to follow. The local assessor determines the value to be taxed.

Comparative Study of
Indian and US Tax System

CHAPTER 5

CONCLUSIONS

5.1 COMPARATIVE STUDY OF INDIAN AND US TAX SYSTEM

5.1 Table showing the Comparative study of Indian and US Tax System:

Sl No	Name of The Heading	Indian Tax System	US Tax System
1	TAX STRUCTURE AND TAX AUTHORITIES	The Indian Tax structure is a three tier structure. In India the Income tax is levied only by the central government.	Though the US tax structure is also three tiered structure sometimes it also act as multi-tiered structure. In US the income tax is levied by all the three governments namely, Federal, state and Local Bodies.
2	TAX INCIDENCE	While filing income tax in India we classify the income under the following groups namely, Salary, House Property, Profit in Business or Organization, Capital Gains and Other Sources.	In US the income is classified under two groups' namely Ordinary income and Capital Gain. Ordinary Income includes Compensation for Personal Services such as Wages & Salaries, Profit, and Dividend from Stock shares, and Interest Income from Investment.

Sl. No	Name of the Heading	Indian Tax System	US Tax System
3	EXEMPTED INCOME	<p>1) In 2009-10 Union Budget, the government announced a slew of tax sops, including an additional Rs 10,000 personal income tax exemption and scrapping of 10 per cent surcharge, while announcing cheaper loans to farmers and incentives for export and infrastructure to attain nine per cent growth.</p> <p>2) It also included incentives for individual tax payers that included an additional exemption of Rs 15,000 for senior citizens and Rs 10,000 for women and others.</p>	<p>1) For 2009, single and married filing separate taxpayers are allowed a standard deduction of \$5,700.</p> <p>2) Married filing jointly and surviving widow(er)s are allowed \$11,340 and head of household taxpayers are allowed \$8,350.</p> <p>3) Taxpayers over 65 or blind are given an additional \$1,100 standard deduction (\$2,200 if over 65 and blind).</p> <p>4) A taxpayer may choose to take the standard deduction or they may itemize their deductions if the amount of itemized deductions is greater than the standard deduction.</p> <p>5) The personal exemption amount in 2009 is \$3,650 per person.</p>

Sl.No	Name of the Heading	Indian Tax System	US Tax System
4	STATUTORY DEDUCTIONS	In India the statutory deductions are not mandatory. For Eg, In case of Medicare, it is not deducted unless the employees request for it.	In US, the Insurance is mandatory for all the people. Their portion of Insurance gets deducted from their salary irrespective of their choice.
5	ESTATE AND GIFT TAX	There is no tax levied for Estate and Gift by the Central Government.	In US Estate valued more than \$1 million are under the tax slab.
6	INHERITANCE TAX	In India, The Inheritance properties are not taxed by any of the government.	Eleven states still collect an inheritance tax. They are: Connecticut, Indiana, Iowa, Kansas, Kentucky, Maryland, Nebraska, New Jersey, Oregon, Pennsylvania and Tennessee.

Sl.No	Name of the Heading	Indian Tax System	US Tax System
7	SALES TAX	There is Central Sales tax which is levied by the central government apart from Value Added Tax levied by the states.	There is no sales tax levied by the Federal government and also only few states adopt Value Added Tax system.
8	TAX RATES	The basic tax slab starts with Rs. 1,60,000 for men, Rs. 1,90,000 for women, and Rs.2,45,000 for Senior Citizens. Once if the income exceeds above this tax slab only they will be taxed with the respective tax rates as per the income.	In US from \$0 they will be taxed with the respective tax rates and divisions they belong to i.e. Single Married Filing Jointly or Qualified Widow(er), Married Filing Separately, Head of Household.
9	FUEL TAX	There is no tax collected on Fuel, Gasoline items in India	Every state in US collects excise taxes on gasoline, diesel fuel and gasohol.
10	METHOD OF TAXATION	In India a separate filing has to be made for women, senior citizen, and spouse and also the minor income is also included for taxation.	In US the tax is filed jointly or separately.

Sl No	Name of the Heading	Indian Tax System	US Tax System																
11	CORPORATE TAX	<p>1) For domestic companies having taxable income less than Rs1 crore (10 million): Income is taxed at a flat rate of 30% with a 3% education cess so total 30.9%.</p> <p>2) For domestic companies having taxable income more than Rs1 crore (10 million): Income is taxed at a flat rate of 30% with a 10% surcharge on tax and 3% education cess on tax plus surcharge so total 33.99%.</p> <p>3) For foreign companies: Income is taxed at a flat rate of 40% with a 3% education cess so total 41.2%.</p>	<p>1) Personal service corporations are subject to a flat tax of 35% regardless of their income.</p> <p>2) The corporate tax are as follows:</p> <table> <tr> <td>\$0-\$50,000</td> <td>15%</td> </tr> <tr> <td>\$50,000-\$75,000</td> <td>25%</td> </tr> <tr> <td>\$75,000-\$100,000</td> <td>34%</td> </tr> <tr> <td>\$100,000-\$335,000</td> <td>39%</td> </tr> <tr> <td>\$335,000-\$10,000,000</td> <td>34%</td> </tr> <tr> <td>10,000,000-15,000,000</td> <td>35%</td> </tr> <tr> <td>15,000,000-18,333,333</td> <td>38%</td> </tr> <tr> <td>18,333,333 & above</td> <td>35%</td> </tr> </table>	\$0-\$50,000	15%	\$50,000-\$75,000	25%	\$75,000-\$100,000	34%	\$100,000-\$335,000	39%	\$335,000-\$10,000,000	34%	10,000,000-15,000,000	35%	15,000,000-18,333,333	38%	18,333,333 & above	35%
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15,000,000-18,333,333	38%																		
18,333,333 & above	35%																		

5.2 CONCLUSION:

The taxes levied by both the countries are somewhat similar except for the one or few taxes like Estate and Gift tax, Inheritance tax, etc. In USA there is a compulsory statutory deduction i.e. Insurance unlike India which enhances the investment.

One of the main similarity is both the countries introduce new reforms for their country's development and welfare. In US laws exist to control foreign investments by US citizens or corporates through Tax Haven countries or territories. In India such law doesn't exist and the Government is in the planning stage with respect to Controlled Foreign Corporate Law.

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