



A STUDY OF DIRECT TAX STRUCTURE OF BRICS COUNTRIES

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ABSTRACT

Funds are required to meet out various survival and other needs at micro and macro level. At micro level, funds are generated through various sources of income and so by the State at macro level to meet out national developments. Taxation is one of them. The taxes can be direct or indirect. One form of direct tax is income tax which is very common and popular. Population is required to contribute certain percentage of their income in the national building. The state manages the entire process by various rules and regulations. This study focuses on the study of the structure of income tax in BRICS countries. The data is collected through secondary sources. The study concludes that each of the 5 BRICS countries has a different structure and needs certain amendments.

Keywords: Funds, Taxation, BRICS.

-MARK TWAIN**MEANING OF TAX**

The Origin of the word Tax is from taxation, which means an estimate. Taxes are compulsory payments to government involving an element of sacrifice without conferring any direct benefit or return to taxpayers. *In the words of Dalton "Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for any legal offence".*

Taxes are classified into two parts- Direct tax and Indirect tax. Income tax is a form of direct tax.

MEANING OF INCOME TAX

Income tax is a combination of two words: **INCOME** and **TAX**. It clearly means that income tax is a direct tax which is imposed on the income of a person. Income tax is calculated on accrued or received net taxable income by a person during previous year according to specified rates of income tax in current assessment year. Income tax is an important source of revenue for the government.

FEATURES OF INCOME TAX

- Burden of income tax is borne by the same person on whom it is levied
- Income tax is levied on the income of the financial year (also called previous year)
- Provisions of advance tax, Deductions, Rebates, TDS (Tax Deducted at Source), penalties etc. are applied.
- Income is classified as – Income form Salary, Income from House Property, Income from Business or Profession, Capital Gain, etc.
- Persons can be classified as Individual, Firm, company, Co-operative Society, etc.
- Rates of tax, Rebates, deductions etc varies for various types of persons.

OBJECTIVES OF CHARGING INCOME TAX

- It's a source of revenue generation of the State.
- To eliminate financial disparity in the society, because it's based on principal of equality'
- To boost the formation of capital through savings and investment made by the assesseees.

CANONS OF TAXATION

A good and ethical tax system must fulfill certain principles if it is to raise adequate revenue and fulfill certain social objectives. Adam Smith had introduced four canons of taxation which he thought an ethical and transparent tax must fulfill:

- Equality,
- Certainty,
- Convenience, and
- Economy

1 Canon of Equality

The first canon of a good tax system given by Adam Smith is of equality. According to this canon, every person should pay to the State according to his ability, that is in proportion of the income or revenue earned by him to the state.

2 Canon of Certainty

Another very important principle of a good tax system is the canon of certainty. To quote Adam Smith, ‘The tax which each individual is bound to pay ought to be certain and not arbitrary.’ The time of payment, the manner of payment, and the quantity to be paid should all to be crystal clear to the assessee.

3 Canon of Convenience:

According to the third canon of Adam Smith, the amount to be paid, time and method of payment of a tax should not only be certain but the time and manner of its payment should also be convenient for the assessee.

4 Canon of Economy:

More complicated tax system, more elaborate administrative machinery has to be employed to collect it. As a result, collection costs will be higher than the tax collection. Therefore, even for achieving economy in the tax collection, the taxes should be as simple as possible and should be higher than the cost incurred in its collection.

BRICS

BRICS is the acronym for an association of five major national economies: **Brazil, Russia, India, China** and **South Africa**. At the time of formation, it was originally known as "BRIC" (South Africa was not included). The BRICS countries are all developing countries, but they are distinguished by their large and fast-growing economies. It is speculated that these economies will become the most dominant by 2050.

The term "BRIC" was coined in 2001 by then-chairman of Goldman Sachs Asset Management, **Jim O'Neill**. South Africa was added on April 13, 2011 and thus the group came to be known as **BRICS**.

REVIEW OF LITERATURE

S.NO.	AUTHOR	TOPIC	YEAR	OBJECTIVE	FINDINGS
1.	Jinjiri Bala, Ahmed	A Comparative Study on Perceived Ethics of Tax Evasion: <i>Nigeria vs India</i>	2021	To investigate the ethics of tax evasion and identify the main views of learned commercial/business students; the effects, if any, of such ethical attitudes of tax evasions.	It was found that Nigerian scores were significantly different from that of India. The respondents in both countries were opposed to the view that tax evasion is always ethical or sometimes ethical.
2.	Kishor Prakash	Analytical study of tax revenue collection in India	2021	To examine the tax collection from 2013-14 to 2017-18 and also calculate the tax-GDP ratio.	It was concluded that corporation tax is the biggest contributor in direct tax. Sales tax is the biggest contributor in indirect tax

NEED OF THE STUDY

Income Tax is a unique instrument of mobilization of resources available with any government. Growing internationalization of economics has made it imperative that income tax policy in a country be formulated not only keeping in view the internal factors, but also the circumstances prevailing and policy being adopted in other countries. With the globalization of economy, a country can't live in isolation. Any change in the world scenario affects the economic and other policies of all the countries.

BRICS is an emerging economic group which has a future potential of expansion. As income tax is a major contributor in the economic development of any country, thus, its study has helped in comparing the past and present trends of income tax of the country with itself and with other member countries. The study has also helped in assessing the future developments in the country's direct tax structure.

OBJECTIVES OF THE STUDY

The following objectives have been visualized for the present study:

- To study the direct tax (income tax) structure of corporate and non-corporate assesses of BRICS countries.
- To make suggestions regarding existing tax structure of BRICS countries.

RESEARCH METHODOLOGY

Research Methodology deals with solving research problems in a systematic manner. It further involves different steps by which a research problem is solved with a logic behind them. The data has been collected from secondary sources. The study is descriptive and analytical in nature.

HISTORY OF INCOME TAX SYSTEM IN BRICS COUNTRIES

(República Federativa do Brasil) BRAZIL:

Since 1822 (Independence year) of Brazil, efforts were continuously been made to establish income tax in Brazil. The first arrangement was made on October 21, 1843 under Law No. 317 which estimated the expenditure and revenue for 1843, 1844 and 1845. A progressive tax was established on the public treasury and was in force for two years. After that, income tax was a temporary measure of collection. **The income tax act was officially established in 1922 under Article 31 of Law no. 4.625:**

“Art 31. It is established the general income tax that shall be paid annually by every individual and corporate body, dwelling or not in the country, and will be levied on the total net income of any source.”

RESIDENTIAL STATUS:

INDIVIDUALS	CORPORATIONS
An individual is deemed to be a resident in Brazil for tax purposes if: he moves to Brazil under a permanent visa; he is hired by a Brazilian company; or if he remains in the country for more than 183 days during a 12 month-period from the original date of entry	An entity is deemed to be resident in Brazil for tax purposes if it is incorporated under Brazilian law or if it opts for registering its corporate headquarters in Brazil.

(RUSSIAN FEDERATION) RUSSIA:

The “**Russian Tax Code**” is the primary law for the Russian Federation. The Code was created, adopted and implemented in **three stages**.

STAGE 1	STAGE 2	STAGE 3
The first part, enacted July 31, 1998, also referred to as the General Part, regulates relationships among taxpayers, tax agents, tax-collecting authorities and legislators, tax audit procedures, resolution of disputes, and enforcement of law.	The second part, enacted on August 5, 2001, defines specific taxes, rates, payment schedules, and detailed procedures for tax calculations. It was significantly amended in 2001–2003 with additions like the new corporate profits tax section and the new simplified tax system for small business. The Code is subject to regular changes which are effected through federal laws.	The Code is designed as a complete national system for federal, regional and local taxes but excludes customs tariffs. Rules and rates of regional and local taxation must conform to the framework established by the Code. Taxes or levies not listed explicitly by the Code or enacted in violation of its specific provisions are deemed illegal and void.

The tax system of Russia uses moderate flat or regressive tax rates. It is completely centralized for a federal state.

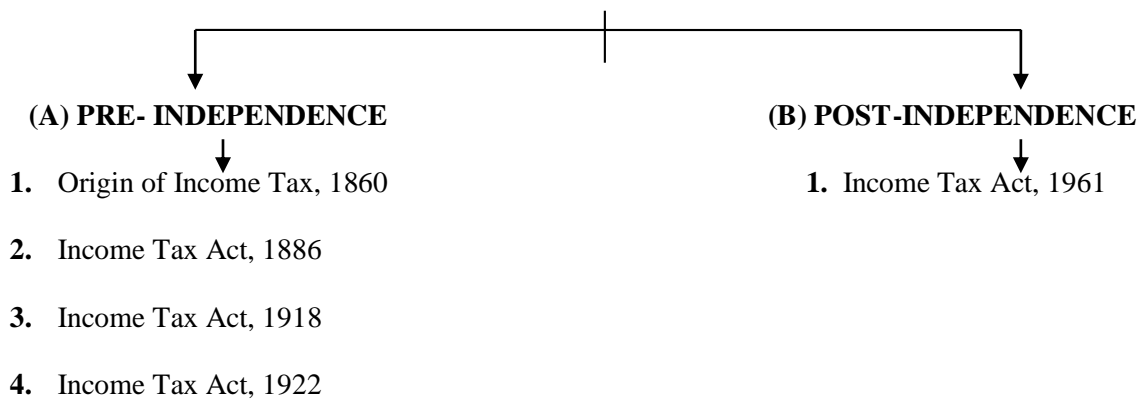
RESIDENTIAL STATUS:

INDIVIDUALS	CORPORATIONS
An individual is considered a Russian tax resident if he/she is physically present in Russia for 183 or more days during a period of 12 consecutive months preceding the specific date of calculation of tax liability.	Legal entities (organizations) established in the jurisdiction of the Russian Federation under the Russian regulations are Russian tax residents. Besides, a foreign entity, which is management from Russia, may be recognized as a tax resident in accordance with the Tax Code.

(Republic of) INDIA

Income tax has been originated in India since 1860. The history of income tax in India has been summarized below:

HISTORY OF INCOME TAX



(A) PRE-INDEPENDENCE:

1. **Origin of Income Tax:** Income tax originated in 1860. It was introduced by Sir James Wilson for the first time.
2. **Income Tax Act, 1886:** It was introduced after many amendments in the years i.e. 1863, 1867, 1873, 1880.
3. **Income Tax Act, 1918:** It was introduced to remove the financial difficulties caused due to First World War.
4. **Income Tax Act, 1922:** The Income Tax Act of 1918 was in force for four years only. It was replaced to introduce the concept of “previous year.”

(B) POST INDEPENDENCE: After independence, the government established various committees and commissions. Taxation Enquiry Commission in 1953 and Direct Tax Administration Enquiry Commission in 1958 were established. On the recommendation of these two commissions, Income Tax Act, 1961 was passed.

INCOME-TAX ACT, 1961: It came into force from 1st April, 1962. It is applicable all over India. Various amendments have been made in this Act. To understand this Act completely, the following should be studied:

- Income-tax rules, 1962
- Finance Act
- Government notifications
- Judicial decisions

RESIDENTIAL STATUS:**INDIVIDUALS:**

RESIDENT	RESIDENT NOT ORDINARILY RESIDENT (RNOR)	NON-RESIDENT (NR)
A taxpayer would qualify as a resident of India if he satisfies one of the following 2 conditions : 1. Stay in India for a year is 182 days or more or 2. Stay in India for the immediately 4 preceding years is 365 days or more and 60 days or more in the relevant financial year.	If an individual qualifies as a resident, the next step is to determine if he/she is a Resident ordinarily resident (ROR) or an RNOR. He will be a ROR if he meets both of the following conditions: 1. Has been a resident of India in at least 2 out of 10 years immediately previous years and 2. Has stayed in India for at least 730 days in 7 immediately preceding years.	An individual satisfying neither of the conditions stated in (a) or (b) above would be an NR for the year.

COMPANIES:

SECTION	COMPANY	RESIDENTIAL STATUS
6(3)(i)	Indian Company	Always Resident in India
6(3)(ii)	A foreign company (whose turnover/gross receipt in the previous year is more than Rs. 50 crore)	It will be resident in India if its place of effective management, during the relevant previous year, is in India.
6(3)(ii)	A foreign company (whose turnover/gross receipt in the previous year is Rs. 50 crore or less)	Always non-resident in India

(PEOPLE'S REPUBLIC OF) CHINA:

China is the world's most populous country. Income Tax is the important element of the macroeconomic policy of China and has a high impact on socio-economic conditions in China. From the reforms in 1994, China has a well structured direct taxation system.

During the era of Republic of China, income tax was levied on salaries and interest on securities deposits. On September 1, 1980 the individual income tax was established in the third session of the National People's Congress. On September 10, 1980 the income tax on individuals was adopted. On January 28, 1994 the state council issued regulations for the income tax of individuals in China.

RESIDENTIAL STATUS:**INDIVIDUALS:**

INDIVIDUALS		COMPANIES
RESIDENT	NON-RESIDENT	
Individuals who domicile in China, or who are not of China but have resided in China for more than one year are considered as resident taxpayers.	Individuals who neither domicile in China, nor who have resided in China for less than one year are considered as non-resident taxpayers.	An entity is deemed to be a tax resident in China where it is incorporated in China in accordance with the laws of China or it is incorporated elsewhere but has the place of effective management in China.

(REPUBLIC OF) SOUTH AFRICA

Income tax in South Africa was first introduced in 1914 with the introduction of the *Income Tax Act No 28*, an act that had its origins in the New South Wales Act of 1895. Various modifications were made in the Act. Currently, the *Income Tax Act No 58* of 1962 is in force which contains provisions for four different types of income tax. These four types of tax are:

- normal tax
- donations tax
- secondary tax on companies
- withholding tax

Income Tax involves payments to a minimum of two different levels of government: central government through SARS or to local government. Non- residents are only subject to domestic taxes.

SOURCE-BASED	RESIDENCE-BASED
Prior to 2001 the tax system of South Africa was "source-based", where income is taxed in the country where it originated.	Since January 2001, the tax system was changed to "residence-based" wherein taxpayers residing in South Africa are taxed on their income irrespective of its source.

“The South African Revenue Service (SARS)” is the authority responsible for the collection of taxes within the Republic of South Africa.

OBJECTIVES OF SOUTH AFRICAN REVENUE SERVICE
<ul style="list-style-type: none"> • "Collect all revenues due. • Ensure optimal compliance with Tax, Customs and Excise legislation. • Provide a customs and excise service that will facilitate legitimate trade as well as protect our economy and society. • SARS is driven by the aspiration to contribute directly to the economic and social development of the country by collecting the revenue due to enable government to deliver on its constitutional obligations, policy and delivery priorities in pursuance of better life for all in South Africa.

RESIDENTIAL STATUS:

INDIVIDUALS	CORPORATIONS
<p>Ordinarily Resident: A person will be considered to be ordinarily resident in South Africa, if South Africa is the country to which that person will naturally and as a matter of course return to after his or her wanderings. Any natural person who is not ordinarily resident (common law concept) in South Africa at any time during the year of assessment but meets all three requirements of the physical presence test, will be treated as being a resident. To meet the requirements of the physical presence test that person must be physically present in South Africa for a period or periods exceeding –</p> <ul style="list-style-type: none"> • 91 days in total during the year of assessment under consideration, as well as • 91 days in total during each of the five years of assessment preceding the year of assessment; and • 915 days in total during those five preceding years of assessment. <p>Non-resident: If the person is not ordinarily resident, does not meet the requirements of the physical presence test or is deemed to be exclusively a resident of another country under an agreement for the avoidance of double taxation, that person will be seen as a non-resident</p>	<p>A company is resident in South Africa if it is incorporated, established, or formed in South Africa or has its place of effective management in South Africa.</p>

SUGGESTIONS OF THE STUDY

- The State of each BRICS country should organize interesting awareness programs of e-filing and its benefits. The programmes should be interactive and motivating.
- All of the BRICS countries should take global initiative to enhance the income tax revenue and e-taxation awareness.
- The State of each BRICS country should also organize workshops for the officials of income tax administration to enhance their efficiency.
- The income tax slabs should be framed keeping in view the convenience and the capability of the taxpayers.

CONCLUSION OF THE STUDY

Income tax revenue is a key for the economic growth of a country. Continuous efforts should be made to enhance the income tax revenue as well as the awareness of the taxpayers. The major aim of this study was to understand the direct tax regime of the BRICS countries as a whole. It was discovered that each country is doing well at its level. Still efforts are needed for improvement. The findings indicate that there exists significant difference in the income tax revenue of BRICS countries. Therefore, The State of each BRICS country should continuously make efforts to improve the same. The State should also make efforts to motivate the taxpayers to accept the electronic method. The ethical issues should also be kept in mind and continuous efforts should be made from both ends: administration and taxpayers. Income Tax is very important for the collection of funds, therefore, efforts should be made to increase the revenue generated from it.