International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2022): 7.942

# Proposed Framework for Enhancing the Tax Payment System for the Salary - Earning Class in India

**Prem Suresh Ghonmode**

School of Management, Indian Institute of Technology, Mandi, India
Email: *mb22033[at]students. iitmandi.ac.in*

**Abstract:** ***This paper presents a novel theoretical framework aimed at enhancing the existing tax payment system by introducing a linked salary and tax account system, offering employees the ability to track their monthly taxable amounts and receive returns on their taxes. The new framework fosters incentives for tax compliance, enables banks to grow through increased account management, and generates higher government revenue. Through this theoretical proposal, the paper outlines a potential solution to improve the tax payment process and create a harmonious environment for all stakeholders involved.***

**Keywords:** theoretical framework, tax payment system, linked salary account, tax account, incentives, tax compliance, account management, government revenue.

## 1. Introduction

On January 30, 2020, The Times of India published an article entitled "India's most abusive taxpayers. " This article talked about the burden faced by a salaried class mid the decline in the number of taxpayers in India. The disparity in treatment between the two kinds of taxpayers, namely salaried class and non - salaried class is not specific to India, but it is growing significantly.

In this paper we have discussed the current framework that employer - employee follows to do their tax payments. In doing so we would express through examples and data summarized to see how the salaried class is at a disadvantage through the current tax paying framework and why there is a need to adopt a new framework to satisfy all the stakeholders in play. The objective is to develop a new framework that will allow a salary - earning class to save their money and get better returns on their taxes.

## 2. Data Collection

Taxation and its relationship with voter demographics vary significantly across countries. Analyzing the statistics of income taxpayers and the salaried - class population provides valuable insights into the tax landscape. Fig.1 shows that in India, just 7% of voters pay income taxes. Whereas 70% of voters in the US and 100% of voters in Norway are income taxpayers. Also, India salaried - class accounts for about 21% of total population. According to the 2018 - 19 budget address, an average salary earner pays three times as much income tax as a non - salaried taxpayer. Moreover, four times more individuals have filed tax returns in the past 15 years than there have been taxpayers. [1]

## 3. Data Analysis

The above data indicates a prevalent attitude among Indians wherein the act of paying taxes is not perceived as an obligation, leading individuals to seek ways to either evade or minimize their tax liabilities. Notably, while a significant portion of tax filers comprises non - salary income earners, they do not contribute substantially as taxpayers. Consequently, the fraction of income taxpayers relative to the overall population has been steadily decreasing, placing an even greater burden on the salaried class. This situation underscores the need for a deeper understanding of the factors contributing to tax avoidance and the implications it poses for the Indian tax system.

In the context of income tax payments in India, the employer, employee, and government emerge as the three primary stakeholders. Presently, the government's imposition of high taxes on the salaried class, coupled with the burdensome tax burden on employees, has fostered an unfavorable environment. Consequently, it becomes imperative to delve deeper into the existing framework that operates within this flawed setting. Our objective is to comprehensively study this framework and propose a model that can effectively bridge the gap between these three stakeholders.

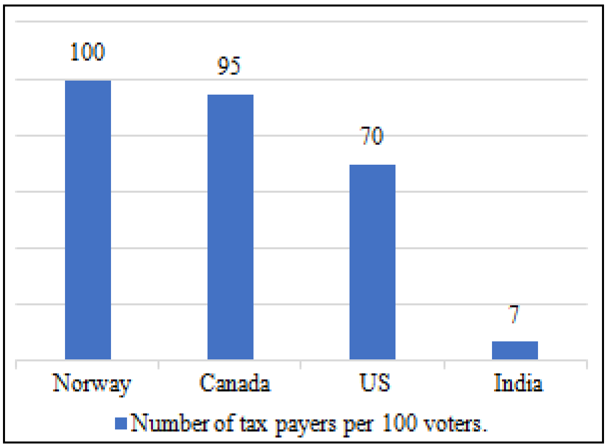


**Figure 1:** Proportion of Income Taxpayers among Voters in India, the United States, Canada, and Norway

# 4. Discussion on Frameworks

### 4.1. Understanding the Traditional Framework

The income earned from an employer plays a crucial role in determining the tax bracket to which an employee belongs. Subsequently, the Tax Deduction at Source (TDS) rate applicable to an individual's salary is determined. Based on the tax bracket, the TDS deduction on one's income can range between 10% and 30%.

Furthermore, if an employee's salary is subject to taxation, it becomes the responsibility of the employer to deduct Tax Deduction at Source (TDS) from the salary amount. This deducted amount is then credited to the employee's designated bank account. Please refer to Fig.2 for visual representation.

However, the traditional method of taxation and TDS deduction fails to satisfy all stakeholders involved. The salaried class finds themselves burdened with a higher tax burden compared to the non - salaried class, while the government encounters significant challenges in ensuring tax compliance, as illustrated in Fig.1. To address these issues, we propose the implementation of a new framework that will bring added value to the existing stakeholders.

### 4.2. Understanding the Proposed Framework

As an enhancement to the existing framework, I propose the inclusion of banks as an additional component to generate value for the government and employees, as depicted in Fig.3. In the traditional framework, employee salaries, after TDS deduction, are directly credited to their salary accounts in the bank. However, our proposal suggests the establishment of two linked accounts: a salary account and a tax account. This linkage will serve as an intermediary between the employee and the TDS deduction process, offering several benefits and bridging the gap between the two.

For a detailed understanding, let us consider the following scenario. When an employee is due to receive their monthly salary before TDS deductions, denoted as A+B, where A represents the amount after deducting TDS and B signifies the TDS amount to be deducted, the employer can credit these amounts to two separate accounts. Specifically, A will be credited to the salary account, while B will be credited to the tax account. This approach enables employees to monitor the monthly taxable amounts they are required to pay by the end of the working year, thus facilitating a seamless tax payment experience. This represents the first advantage of the proposed framework.

Moreover, maintaining the tax amount in the tax account at banks offers advantages for both the employees and the banks. Banks can provide fixed interest rates on the tax account, providing incentives for employees to pay their taxes. At the end of one year, when the tax account matures, the bank can pay interest on the amount in the tax account (B * 12) and transfer the original taxable amount (B) to the government. This arrangement not only ensures employees receive returns on their taxes but also promotes compliance. Consequently, employees are satisfied as stakeholders. Additionally, banks can utilize the tax accounts for one year, enabling them to make further investments, thereby benefiting them as stakeholders. This constitutes the second advantage of the proposed framework.

By implementing this framework, the government stands to gain significantly, as more individuals will fulfill their tax obligations. The resulting increase in government revenue contributes to the government's satisfaction as a stakeholder.

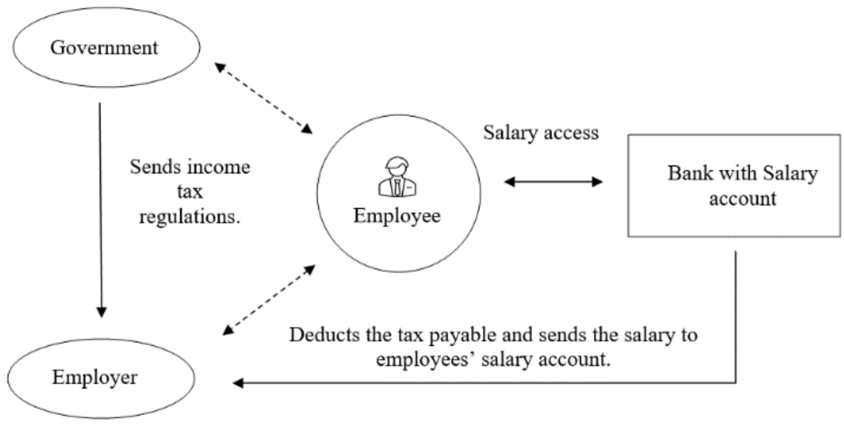


**Figure 2:** Traditional Framework of Salary Crediting and the TDS Deduction Process

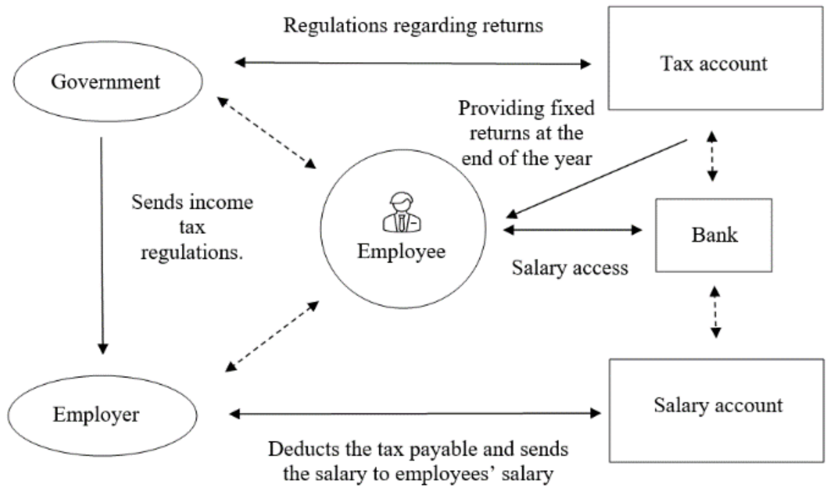


**Figure 3:** Proposed Framework with Linked Salary and Tax Accounts for Seamless TDS Deduction and Tax Payment.

## 5. Conclusion

In conclusion, our efforts to enhance the existing framework by introducing an additional stakeholder (i. e., banks) have resulted in the development of a new framework that aims to satisfy all stakeholders involved. The proposed framework brings forth several potential benefits, ensuring a win - win situation for each party.

Firstly, the government stands to potentially generate increased earnings as employees are incentivized to fulfill their tax obligations through the offered incentives. This has the potential to encourage a higher tax compliance rate and contribute to enhanced government revenue.

Secondly, banks have the potential to benefit significantly from this new framework through the increased number of accounts to manage. The tax accounts held by banks can provide stability and serve as a valuable resource for further investments. This opens up opportunities for growth and prosperity within the banking sector.

Moreover, employees themselves have the potential to benefit from this new system, with advantages such as tracking their monthly taxable amounts and better planning of tax payments. The prospect of receiving returns on their taxes through interest on the tax account can create further motivation for timely tax payment.

While this conclusion presents a theoretical framework with potential benefits, it is important to acknowledge that empirical testing and real - world implementation are crucial steps. Further research is needed to explore the practical implications, challenges, and outcomes of implementing such a framework. This study serves as a steppingstone, paving the way for future research and considerations in order to validate and refine the proposed framework.

## References

[1] "India's most abused tax payers" January 30, 2020, Rohit Saran, India, TOI.