

# Comparison between the tax structure of india economics essay

[Economics](#)



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## **CONTENTS**

### **INTRODUCTION**

The LPG policies which emerged in the 1990's marked the growth of India, as a country, able to compete with the foreign countries in terms of production, GDP, defense and other issues of National Importance. It subsequently led to the expansion and introduction of various Multi-National Corporations into the Indian soil as a result of the licensing procedures being softened. In the last two decades, Brazil, China, India and South Africa (the BCIS countries) have become very important actors in the globalization process, which is why, analyzing the evolution of the drivers behind that process and its impacts on people's lives is crucial to a better understanding of these countries' economies as well as of living standards in other emerging economies and worldwide. The process of globalization has resulted in the increase of money power in the hands of the people resulting in various

processes of taxation, for various products, at different hours of purchase. It is said that the Indian Tax system is the most complicated and scientific in its nature. For the purpose of this paper we would like to compare Brazil's tax system and Indian Tax system on some crucial points so as to bring out the main differences in both the systems.

## **Income tax rates for an Individual**

### **Indian Scenario**

Individuals are taxed on a progressive basis under three slabs. The slabs for individual taxpayers for the year 2011-12 is as below compared with the Brazilian provisions

Resident woman below the age of 60 years, the basic exemption limit is Rs 190, 000

For senior citizens, individual of the age of 60 years or above but below 80 years, the basic exemption limit is Rs 250, 000.

Individual of age of 80 years or above, the basic exemption limit is Rs 500, 000

### **Brazilian scenario**

Brazil has a progressive personal taxation system under which individuals are taxed up to a maximum of 27. 5% of their income. The Brazilian fiscal year begins on Jan. 1 and ends on Dec. 31. The rate is progressive from 0% to 27. 5% and shared out into three brackets. These taxation brackets apply to monthly income amounts, on a yearly basis.

**India****Brazil****Tax %****Income (INR)**

0%10%20%30%1 - 180, 000180001-500000500001-800000800001 and above

**Percentage %****Monthly Salary(R\$)**

Nil7. 51522. 527. 51. 637, 111. 63712-2. 453502. 45351-3. 217383. 21739-4. 08765Above 4. 08765

**Overseas Income**

The mechanism of taxation in case of income earned by residents earned abroad differs in Brazil and India.

**India****Brazil**

An individual and company who are Indian residents are also taxed on their income outside India and receive a credit for overseas taxes. Qualification for residence for an individual : Residence in India of at least 182 days in the tax year, ORResidence in India at least 60 days in the tax year and at least 365 days in the 4 previous years. An Indian resident is also taxed on his overseas income. There is a clear cut differentiation made here in terms of residents and non residents. Though there is no major provision in the Brazilian regime

but : A resident is taxed on remuneration received by him outside Brazil. A non-resident is not taxed at all on his overseas income.

## **Social Security Tax**

The Brazilian Tax regime provides exclusively for the social security tax by providing exact ratios of deductions whereas the Indian tax regime does not exclusively provide for the same. But in the Indian regime the social security contribution scheme is prominent through the contribution of the employer and the employee towards the provident fund. The concept of the Provident Fund is similar to the social security tax programs. Provident Funds are of different types such as Public Provident Fund, General Provident Fund, and Employee's Provident Fund. The General Provident Fund is provided to the employees of the central government, the Public Provident Fund is provided by the State Bank of India, the largest commercial bank in India for the employees of the state government, and the Employee's Provident Fund is also provided by the State Bank of India, for the private sector employees. A clear comparison and contribution of the employer and the employee to the provident fund is shown below:

### **India**

### **Brazil**

The contribution needs to be either of the following for both the employer and the employee: 12% of Specified salary (Basic + DA) OR 12% of Rs. 6500/-  
[1]The contribution matrix is here under[2]

## **Contribution**

### **EPF**

### **EPS**

Employee 12% NIL Employer 3.67% 8.33% Central Government NIL 1.16%

## **Total Contribution per month**

**15.67%**

**9.49%**

Employer: 37.3% of the gross salary comprising

**28.8% social security and**

**8.5% for severance fund.[3]**

Employee: 7.65% to 11% of the gross salary.[4]The employee's payment, which is capped, is based on a contribution salary table, provided by the government.[5]

## **Inheritance/Wealth Tax**

**Where the Social security tax provisions were exclusively mentioned in the tax regime of Brazil, the wealth Tax provisions are exclusively a part of the Indian Regime. The comparison is drawn below:**

### **India**

### **Brazil**

The tax is imposed in India on assets specified in the law such as houses, vehicles, plots of land. Individuals and companies are liable for the tax. The tax is not imposed on productive assets or income producing assets.

**The tax, at the rate of 1%, is imposed only on assets with a value in excess of INR 3million.[6]**

Brazil has no inheritance or wealth taxes.[7]However, some states may impose a death transfer and a donation/gift tax.[8]

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## **Value Added Sales and Services Tax/Excise Tax**

**The table drafted below shows the existent provision and their rates respectively of the two countries:-**

### **India**

### **Brazil**

### **VAT**

The standard rate of VAT is 12.5%. There are reduced rates of 4% and 1%. The minimum annual turnover for V. A. T. registration is INR 500,000. V. A. T. returns are filed on a monthly or quarterly basis. Sales tax of 2% is imposed on transfer of goods between Indian states.[9]

### **SERVICE TAX**

This tax is imposed on a defined group of services provided in India as follows: advertising services, consultancy services, banking, insurance and more. The tax imposed is 10.3% including CESS. Service tax is paid monthly/quarterly. Returns are filed each half year.[10]It is important to note that Brazil does not have VAT as such. The Brazilian tax regime for sales and production is not similar to those of Europe. Two types of value added type taxes exist in Brazil: value added sales, services tax (ICMS) and excise tax (IPI)[11]

## **CAPITAL GAINS**

Compared to the Indian provisions, the Brazilian provision has every minute detailing done to accommodate all types of situations. The differences is as follows:-

### **INDIA**

#### **Brazil**

Capital gains for companies and individuals in India are divided into 2 groups, long term capital gains and short term capital gain. Long term capital gains relate to the sale of an asset that has been held for 3 years or longer (on the sale of negotiable securities on the Indian Stock Exchange, shares that have been held for over a year). When the asset has been held for a shorter period than that defined as long term, the capital gain is deemed to be a short term gain. The long term tax rate is 20% for assets, For purposes of calculation, the cost is adjusted to the increase in the Index and deducted from the proceeds. Capital gains from the sale of long term negotiable securities on the Indian Stock Exchange are tax exempt when the sale is subject to Securities Transaction Tax, otherwise they are taxed at 10%. A short term capital gain is added to regular income. At the same time a capital gain on the sale of negotiable securities on the Stock Exchange which is subject to Securities Transaction Tax is taxed at 15% for individuals and companies.[12]Gains realized on the sale of capital assets are subject to tax at a flat rate of 15%, regardless of whether the underlying assets are used in a trade or business. Capital gains on one transaction each month are exempt from tax if the sale price is less than R\$35, 000. Capital gains derived from the sale of shares listed on Brazilian stock exchanges are

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exempt from tax if the sale price is less than R\$20, 000. If the sale price exceeds R\$20, 000, the entire gain is taxed at a rate of 15%. Capital gains derived from the sale of real estate are subject to income tax at a rate of 15% on the difference between the sale price and the acquisition price. A special exemption is granted to individuals selling their only residence if they have owned it for atleast 5 years and if the sale price does not exceed R\$440, 000. In addition, gains derived from sales of residential real properties are exempt from tax if the seller uses the proceeds from the sale to buy other residential real properties in Brazil within 180 days from the first contract execution date.

## **Income Tax Deducted at Source**

### **India**

### **Brazil**

An employer is obligated to deduct tax at source on a monthly basis from a salaried employee and to make additional contributions to a provident fund and insurance. The Indian employer's contribution to provident fund is 12% in general. Employees pay to provident funds 10%-12% of their salary. In Brazil tax is deducted at source from the following payments to non residents: Dividend-0%. Interest-15%/25%. Royalties-15%. Services -15%/25%. For the residents the deductible portion is exhibited below in the table.

## **BRAZILIAN TAX RATE**

Base of calculation (R\$)Rate (%)Deduct the portion(R\$)Up to 1. 637, 11

-

-

From 1. 637, 12 to 2. 453, 507. 5122, 78From 2. 453, 51 to 3. 271, 3815306,  
80From 3. 271, 39 to 4. 087, 6522. 5552, 15Above 4. 087, 6527. 5756, 53

## **Depreciation**

### **India**

### **Brazil**

#### **Class of Asset Annual Depreciation**

Buildings 5 - 10%Furniture and equipment 10 - 15%Intangible assets

25%Machinery and equipment 25%Vehicles 20%Aircraft and trucks

40%Depreciation is deducted using the straight line method. Companies

working in 2 shifts can claim 150% of the standard rates, while companies

working in 3 shifts are entitled to 200% of the standard rates.

## **CONCLUSION**